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Innovation in the Humanitarian Financing: The current landscape, challenges, and emerging solutions

Patrícia Boa-Alma

Master in Humanitarian Action

Supervisor:
PhD. Annelien Groten, Invited assistant Professor,
ISCTE - Instituto Universitário de Lisboa

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Department of Sociology

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Gracias a la vida que me ha dado tanto

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Resumo

O financiamento humanitário enfrenta uma pressão crescente devido ao aumento da escala e da complexidade das crises, bem como à discrepância entre necessidades financeiras e recursos disponíveis. Embora os mecanismos tradicionais, baseados sobretudo em subsídios, continuem a dominar, revelam-se insuficientes para responder às necessidades globais. Esta dissertação analisa o panorama atual do financiamento humanitário, identifica os principais desafios e avalia de que forma os mecanismos inovadores podem ajudar a ultrapassá-los.

A investigação adota uma metodologia qualitativa, assente numa revisão sistemática da literatura e numa análise comparativa de instrumentos de financiamento tradicionais e inovadores. Em complemento, desenvolve e testa uma ferramenta de apoio à decisão baseada em Análise Multicritério de Decisão (MCDA). O objetivo é apoiar organizações humanitárias na escolha de opções de financiamento adequadas ao seu perfil e necessidades, através de critérios transparentes e replicáveis.

Os resultados sugerem que instrumentos inovadores, como o blended finance, o financiamento baseado em resultados e os mecanismos de partilha de risco, oferecem perspetivas promissoras, mas permanecem pouco acessíveis para ONG locais e de menor dimensão devido a barreiras técnicas, regulatórias e administrativas. A ferramenta proposta procura mitigar estas dificuldades, fornecendo um quadro estruturado que facilite o acesso e permita navegar o sistema de forma mais eficaz.

Ao conjugar análise teórica com um contributo prático, esta dissertação acrescenta valor tanto ao debate académico como à prática operacional, sublinhando o potencial da inovação não apenas para mobilizar recursos adicionais, mas também para reforçar a transparência, a equidade e a eficácia do financiamento humanitário.

Palavras-chave: Financiamento humanitário; Inovação humanitária; Ferramenta de apoio à decisão; Análise Multicritério de Decisão (MCDA); Lacunas de financiamento

Abstract

Humanitarian financing faces increasing pressure due to the rising scale and complexity of crises, as well as persistent gaps between funding requirements and available resources. While traditional grant-based mechanisms continue to dominate, they are increasingly insufficient to address the growing humanitarian needs. This dissertation explores the current landscape of humanitarian financing, identifying its main challenges, and examines how innovative financing mechanisms can contribute to overcoming them.

The research applies a qualitative methodology based on a systematic literature review and narrative synthesis, complemented by a comparative analysis of both traditional and innovative financing instruments. In addition, the study develops and tests a decision-support tool grounded in Multi-Criteria Decision Analysis (MCDA). This tool aims to match humanitarian organizations with financing options that best align with their specific profile and needs, based on a transparent and replicable set of criteria.

Findings suggest that while innovative instruments such as blended finance, results-based funding, and risk-sharing mechanisms offer promising avenues, they remain largely inaccessible to smaller and local NGOs due to high technical, regulatory, and administrative barriers. The decision-support tool presented here seeks to reduce these barriers by providing a structured framework for organizations to navigate the financing landscape more effectively.

By combining theoretical analysis with a practical tool, this dissertation contributes to both academic debates and operational practice, highlighting the potential of innovation not only to mobilize additional resources but also to improve the transparency, equity, and effectiveness of humanitarian financing.

Keywords: Humanitarian financing; Humanitarian innovation; Decision-support tool; Multi-Criteria Decision Analysis (MCDA); Funding gap

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Glossary

1. **AECF:** Africa Enterprise Challenge Fund.
2. **CBPF**: Country-Based Pooled Funds
3. **CCRIF SPC** : Caribbean Catastrophe Risk Insurance Facility
4. **CERF**: Central Emergency Response Fund
5. **CNF:** Caucasus Nature Fund
6. **DFC:** America's development Finance Institution
7. **DFID:** United Kingdom's former Department for International Development
8. **DG ECHO:** Directorate-General for European Civil Protection and Humanitarian Aid Operations
9. **EBRD:** European Bank for Reconstruction and Development
10. **FCDO** Foreign Commonwealth and Development Office
11. **FTS:** Financial Tracking Service
12. **GCFF:** Global Concessional Financing Facility
13. **GFFO**: German Federal Foreign Office
14. **GHA:** Global Humanitarian Assistance (ALNAP)
15. **GPPI:** Global Public Policy Institute
16. **GRMF**: Geothermal Risk Mitigation Facility
17. **HRI:** Humanitarian Research and Innovation
18. **HRP**: Humanitarian Response Plan
19. **HRPs**: Humanitarian Response Plans
20. **IATI**: International Aid Transparency Initiative
21. **ICRC**: International Committee of the Red Cross
22. **ICVA**: International Council for Voluntary Agencies
23. **ISF**: InsuResilience Solutions Fund
24. **MAUT**: Multi-Attribute Utility Theory
25. **MAVT**: Multi-Attribute Value Theory
26. **MCDA**: Multi-Criteria Decision Analysis
27. **MOUs:** Memoranda of Understanding
28. **OCHA:** UN Office for the Coordination of Humanitarian Affairs
29. **OCHA:** United Nations Office for the Coordination of Humanitarian Affairs
30. **PONT:** Prespa Ohrid Nature
31. **SME**: Small and medium-sized enterprises
32. **UNHCR**: United Nations Human Rights Council
33. **UNICEF**: United Nations Children's Fund
34. **USAID**: United States Agency for International
35. **We-Fi:** Women Entrepreneurs Finance Initiative
36. **WFP**: World Food Program
37. **World Economic Forum**

Introduction

From the very beginning of choosing a topic for my dissertation, I wanted to ensure that I explored an issue I considered critical and highly relevant for both humanitarian action and the broader field of development.

The Master's in Humanitarian Action at ISCTE is, in my view, extremely rich, versatile, and innovative. I learned fundamental concepts of humanitarian action, as well as practices across diverse areas such as public health, monitoring and evaluation, and geopolitics. However, one thing I always felt was missing, and even found surprising, was the lack of focus on humanitarian financing.

It is, without doubt, essential for a humanitarian professional to know how to operate both in the field and in the back office, and the Master's prepares us very well for this. Yet, I believe it is widely accepted that without funding, nothing is possible. The humanitarian system moves billions of euros; its financial needs are only increasing, and yet throughout the course, I never questioned: Where does all this money come from? Who requests it? Who provides it? Moreover, when resources fall short, what solutions exist?

Identifying this gap in my learning, I decided to explore the subject further and soon realised that I was not alone: most humanitarian practitioners, particularly from local and national NGOs, also lack in-depth knowledge about financing. My initial research confirmed that humanitarian funding is increasingly scarce while needs continue to grow, which made it meaningful to investigate the innovative solutions being developed to bridge this gap.

This gap is compounded by the fact that existing information is often fragmented, contradictory, and poorly coordinated. That is precisely why I developed the decision-support tool. Initially, I had no intention of creating such a tool. However, as my research advanced, it became clear that humanitarian actors often lack both the time and the technical expertise to navigate the wide range of financing mechanisms. More importantly, many do not even know where to begin. The tool, therefore, aims to offer, at the very least, a clear and accessible overview of available options.

The humanitarian response system is currently being tested to its limits. Crises worldwide are intensifying due to a combination of violent conflicts, widespread hunger, climate-related hazards, and epidemics, all of which are affecting increasingly large portions of the global population (OCHA, 2022).

Data from the Global Humanitarian Overview confirms the urgency of this situation. According to OCHA (2022), under UN-coordinated appeals, 1 in 23 people required humanitarian assistance in 2022, totaling 274 million people, with projections rising to 339 million in 2023. By the end of 2023, needs had in fact surpassed expectations, reaching 363.3 million people (OCHA, 2023). However, these figures only reflect UN-coordinated appeals. The Global Humanitarian Assistance Report 2023 provides a broader perspective, estimating that 406.6 million people in 82 countries required humanitarian assistance in 2022 (Development Initiatives, 2023). This widening demand, compounded by inflation, soaring commodity prices, and increased operational costs, has placed unprecedented pressure on the system. For example, the World Food Programme reported that its monthly procurement costs in 2023 were 44% higher than pre-pandemic levels (OCHA, 2023).

As a result, these countries reached 16% fewer people, even though they targeted the same number of beneficiaries. This persistent underfunding is particularly concerning as most of these contexts have experienced sharp increases in humanitarian needs (OCHA, 2023).

According to *Development Initiatives* (2023), the humanitarian system continues to face both structural shortcomings, such as weak coordination, and financial gaps, such as unequal and insufficient funding. Overall, the evidence indicates that the humanitarian response system is facing a dual crisis: growing needs and shrinking relative resources. Persistent underfunding, combined with fragmented reporting frameworks and increasing operational costs, continues to undermine the effectiveness of humanitarian interventions (Development Initiatives, 2023)

Addressing these challenges requires stronger coordination frameworks, more transparent funding mechanisms, and innovative financing approaches. Similarly, *Issa et al.* (2022) highlight the need to harmonize reporting requirements and propose a “localization tracker” to strengthen alignment between local and international NGOs. Without such measures, fragmentation and inefficiencies persist, ultimately undermining the effectiveness of humanitarian responses.

In this context, innovation has emerged as a crucial avenue for rethinking humanitarian financing, offering new mechanisms and approaches to bridge funding gaps and improve the system’s effectiveness (Ramalingam et al., 2009). Innovation in humanitarian financing has gained significant importance in recent years due to the growing demand for aid and support in crises (Global Humanitarian Overview, 2024).

This thesis aims to explore the current landscape of humanitarian financing and the relationship between innovative financing and humanitarian aid effectiveness. Therefore, the primary focus is to address the following key question: *"What is the impact of innovative financing mechanisms on addressing funding gaps and enhancing the effectiveness of humanitarian interventions?*". To study

the relationship between effectiveness and innovation, this research will examine the challenges humanitarian organizations face in accessing funding, as well as emerging solutions and innovative approaches to overcome them.

By comprehensively examining these issues, this research seeks to contribute to a better understanding of how innovation can be leveraged to enhance proper humanitarian financing and effectively assist those in need. To do so, the following sub-questions will be explored:

- What are the different types of innovative financing mechanisms being employed within the humanitarian sector?
- To what extent do innovative financing mechanisms ensure transparency, accountability, and ethical practices in humanitarian financing?
- To what extent do financing mechanisms influence collaboration and coordination among stakeholders involved in humanitarian interventions?

These sub-questions aim to provide insights into the specific mechanisms and practices of innovative financing in the humanitarian sector. By addressing it, the research explores the diverse range of innovative financing approaches and their impact on transparency, accountability, and stakeholders. Ultimately, the findings will contribute to a deeper understanding of the potential of innovative financing to address funding gaps and improve the effectiveness of humanitarian interventions.

Beyond the theoretical and critical analysis of the humanitarian financing landscape, this dissertation also pursues an applied intention: the development of a decision-support tool to help humanitarian organizations identify financing options suited to their profile and needs. Designed based on criteria drawn from the literature and operationalized through a multi-criteria analysis model, this tool seeks to provide a practical contribution that complements the academic discussion, bridging research insights with real-world application.

Research objectives

To examine how innovative financing mechanisms address humanitarian funding gaps and strengthen the effectiveness of interventions, this thesis first sets out the broader humanitarian financing landscape. The aim is not only to map existing practices but also to critically assess how new mechanisms can improve transparency, accountability, and coordination among actors, while providing practical tools to guide funding choices. Therefore, the following specific objectives were set:

- Analyze the current humanitarian financing landscape, including:
  - Traditional funding sources, contributions, and allocation trends;
  - Mechanisms and modalities through which funding is channeled, assessing effectiveness, strengths, and limitations.

- Examine emerging innovative financing mechanisms, by:
  - Identifying and describing new approaches aimed at closing funding gaps and improving effectiveness;

- Develop a decision-support tool that helps humanitarian actors identify, compare, and select financing options suited to their organizational profile and needs.

Together, these objectives link a detailed mapping of the current system with a forward-looking analysis of innovative tools, ensuring both academic relevance and practical applicability.

Linking Research Questions to Objectives

In light of enhancing coherence in this dissertation, the research questions are reviewed in relation to the proposed objectives. The first objective is to analyse the general landscape of humanitarian financing regarding traditional funding sources, allocation trends, and financing modalities. While the focal point of this research lies in innovation, this objective draws from the first research question, which identifies the different kinds of innovative financing mechanisms in use in the humanitarian sector. In identifying these mechanisms, the question enables a deeper understanding of how emerging approaches are positioned within the current funding architecture.

The second objective of the study is to dig deeper into innovative financing mechanisms to identify new methods that can help bridge funding gaps and improve humanitarian effectiveness. This objective is addressed through three research questions: The first is to map and categorize innovative financing approaches-what is out there, and how does it work? The second investigates the extent to which these mechanisms ensure transparency, accountability, and ethical standards to assess the quality and governance principles underpinning them. The third research question explores how financing mechanisms influence collaboration and coordination among stakeholders involved in humanitarian interventions, linking innovation to system performance and the effectiveness of operational delivery.

The third objective is to design a decision-support tool that enables humanitarian actors to identify, compare, and select financing options that best match their organisational profile and needs. Although this objective builds on the insights generated through the research questions, it is not directly tied to a single one; rather, it integrates the broader findings into a practical output. This shows how the analytical work feeds into the development of an applied tool, strengthening the connection between the study's conceptual exploration and its practical contribution.

Together, the research questions and objectives reinforce one another, as an analysis of the humanitarian financing landscape, how innovative mechanisms function in practice, and implications feed into the development of a practical decision-support tool. This will help ensure that it is based on evidence and responds to real needs within the sector, linking the conceptual and practical dimensions of the dissertation.

1 Methodology

This thesis combines two complementary methodological approaches. First, it applies a qualitative research design based on a systematic literature review and narrative synthesis to map existing evidence, highlight inconsistencies across key databases, and identify the most relevant financing mechanisms and criteria. Second, it develops and tests a decision-support tool using Multi-Criteria Decision Analysis (MCDA), which operationalizes these criteria through a structured scoring and weighting system(Belton & Stewart, 2002). Together, these approaches ensure both a solid analytical foundation and an applied contribution to the assessment of innovative financing in the humanitarian sector.

1.1 Literature Review

This thesis follows Snyder 2019 and adopts a semi-systematic literature review approach, combining academic and grey literature. This approach is considered particularly suited to emerging interdisciplinary fields, such as humanitarian innovation financing, where the volume of peer-reviewed research remains limited. In fact, one of the biggest challenges that arose during the review process was the general lack of academic studies on innovative financing within humanitarian action. The available scholarship tends to focus either on development finance or innovation management, with little direct attention to the intersection between financing and humanitarian operational effectiveness. Due to this gap, grey literature has been an important component of this review.

Searches were conducted across major academic databases (Google Scholar, JSTOR, Web of Science, Scopus, and ScienceDirect) using combinations of terms such as "humanitarian innovation," "financing," "funding," and "innovative financing mechanisms." However, given the limited academic coverage of the topic, this review relied heavily on grey literature, focusing on reports and datasets produced by institutional and sectoral bodies such as OCHA, Development Initiatives - GHA report, IATI, the World Bank, and the OECD. These were selected because they represent the most recent, comprehensive, and operationally relevant analyses of humanitarian financing trends.

Reliance on grey literature required careful validation. Sources were systematically cross-referenced to ensure consistency in regard to key figures, definitional frameworks, and conceptual boundaries. Documents from recognized international organizations and research institutions were privileged, thanks to their methodological transparency and sectoral authority. When discrepancies did arise-most notably with regard to global humanitarian funding volumes-multiple datasets were presented side by side rather than reconciled artificially. These inconsistencies are treated not as errors to be resolved but as meaningful evidence of structural fragmentation in humanitarian financial reporting and tracking systems.

This semi-systematic review framework thus lays the groundwork for the thesis: mapping the financing system and its challenges, exploring innovative financing mechanisms, and illustrating those through case studies.

1.2 Decision-Support Tool (MCDA)

This Chapter also presents the methodology used to design and test the decision-support tool developed in this thesis. The tool applies a simplified form of MCDA to match humanitarian organizations with suitable financing mechanisms (Belton & Stewart, 2002). MCDA was chosen because it structures complex problems, makes trade-offs explicit, and ensures transparent and defensible decisions (Belton & Stewart, 2002), qualities particularly relevant in humanitarian finance(Cliffe, 2025).

MCDA provides a systematic framework for addressing decision problems in which multiple, and often conflicting, objectives must be considered simultaneously. Belton and Stewart (2002) emphasize that the value of MCDA lies not only in ranking alternatives but also in structuring decision problems so that trade-offs become explicit and decisions are more transparent and defensible. Within this family of methods, a distinction is made between Multi-Attribute Utility Theory (MAUT) and Multi-Attribute Value Theory (MAVT). MAUT is suited to decision contexts involving uncertainty, where outcomes are probabilistic and decision-makers' risk attitudes must be modelled. At the same time, MAVT applies to contexts of certainty, where alternatives can be evaluated based on known performance across criteria. This dissertation adopts MAVT, rather than MAUT, because the decision-support tool evaluates financing mechanisms against a set of deterministic attributes (e.g., accessibility, predictability, transaction costs) rather than modelling probabilistic outcomes.

Six evaluation criteria were derived from the literature: organization type, risk tolerance/repayment capacity, primary need, M&E capacity, revenues/cash flow, and financing horizon. Each financing mechanism identified in the research was scored against these criteria, and

the scores were aggregated using a weighted-sum model (Belton & Stewart, 2002). “Primary need” and “risk tolerance” received the highest scores in the research, which were evaluated against these criteria, and the scores were aggregated using a weighted sum, reflecting their central role in determining eligibility. In contrast, the other criteria were treated as enabling conditions.

According to Belton and Stewart (2002), MAVT formalizes decision-makers' preferences through value functions, enabling alternatives to be compared on a common scale. Its most widely used form is the additive value model, expressed as the weighted sum of partial value functions, which the authors describe as “the simplest, and most widely used form of value function” (Belton & Stewart, 2002, p. 120). They illustrate this in a Business Location case study, where economic, social, and logistical attributes were structured into an additive model to compare alternative sites, showing how the method makes trade-offs explicit and provides a defensible ranking of options. The relevance of such approaches has also been demonstrated in the humanitarian field: for instance, Vitoriano et al. (2011) developed a multi-criteria optimization model to support aid distribution in the aftermath of the Haiti earthquake, incorporating not only cost but also timeliness, equity, and security. Building on these theoretical and practical precedents, this dissertation adapts a simplified MAVT approach to humanitarian financing, in which decision-making similarly requires balancing multiple attributes rather than relying on a single dimension, such as cost-efficiency.

The methodology was implemented as an Excel prototype, with dropdown menus, explicit scoring rules, and adjustable weights. It has been tested for internal consistency but not yet piloted with humanitarian organizations.

1.2.1 Criteria Selection

The first stage of MCDA is problem structuring, which clarifies the analysis's objectives and defines the evaluation criteria. Belton and Stewart (2002, p. 35) note that “a problem well-structured is a problem half solved.” As they further emphasize, in MCDA the process is not about reproducing a pre-existing “reality” but rather about constructing a framework that helps decision-makers make sense of the issue, define preferences and priorities, and identify the key concerns, goals, stakeholders, and uncertainties that should guide further analysis (Belton & Stewart, 2002).

In the context of this research, this problem-structuring phase involved translating the broad challenge of fragmented, complex humanitarian financing into concrete evaluation criteria. Based on the humanitarian finance literature, I identified six criteria as most relevant for distinguishing between financing mechanisms:

- Organization type (LNGO, NNGO, INGO, UN agency, Government, Social Enterprise)

- Risk tolerance/repayment capacity (non, low, medium, high)
- Primary need (operational, capital, rapid response, resilience, results-based programming)
- Monitoring and evaluation (M&E) capacity (basic, intermediate, advanced)
- Own revenues/cash flow (non, small, moderate, regular)
- Time horizon of financing (>12 months, 1-3 years, >3 years)

1.2.2 Scoring Logic and the Weighted Sum Model

To help determine the most suitable financing mechanism for different types of organizations, each mechanism was evaluated against these criteria using a four-point scale (0–3), where:

0 = no alignment

1 = partial alignment

2 = moderate alignment

3 = strong alignment

Belton and Stewart (2002) emphasize that the choice of scale in MAVT is context-dependent and should be adapted to the decision environment. Consistent with this guidance, a four-level (0–3) scale was selected here as it balances sufficient differentiation with ease of use, particularly for NGOs with limited technical capacity. The four-point scale (0–3) was defined by me, following the guidance of Belton and Stewart (2002) that the choice of scale in MAVT should be context-dependent. The decision was made after considering the primary intended (though not exclusive) users of the tool: small and medium-sized NGOs, which often lack advanced technical and administrative capacity (Issa et al., 2021), for whom a small scale offers sufficient differentiation without creating unnecessary complexity.

The overall value of an alternative a is calculated as the weighted sum of its performance on each criterion, expressed as $\boldsymbol{V(a) = \sum W_i \cdot v_i(a)}$, where $\boldsymbol{v_i(a)}$ is the value of alternative a on criterion i and $\boldsymbol{W_i}$ is the weight assigned to that criterion. This procedure ensures that each recommendation can be traced back to explicit rules (the scoring logic) and transparent priorities (the weights), making the model both interpretable and adaptable.

$$V(a) = \sum_{i=1}^{m} w_i v_i(a) \quad (3.1)$$

1.2.3 Weighting

The weights were set pragmatically to reflect the relative importance of each criterion, following the principle in Belton and Stewart (2002) that weights represent relative priorities rather than absolute values. A narrow scale from 1.0 to 1.4 was adopted to avoid overweighting any single factor, while still differentiating between criteria. In practice, this means that “Primary need” (1.4) has the most significant influence on determining instrument suitability, as the type of financing need is the strongest discriminator between mechanisms. “Risk tolerance” (1.3) is also highly influential, since instruments such as concessional loans or blended finance are only feasible for organizations that can assume financial risk. “M&E capacity” and “Revenues” (1.2 each) act as enabling conditions that shape eligibility but are less decisive than need or risk. Finally, “Organization type” and “Time horizon” (1.0 each) provide contextual information without dominating the ranking.

1.2.4 Operationalization

The methodology was operationalized in four steps:

1. Definition of criteria: Six criteria selected from the humanitarian finance literature.
2. Scoring logic: Each financing mechanism was scored from 0 to 3 according to alignment with organizational characteristics.
3. Weighting: Multiplication of scores by adjustable weights to reflect relative importance.
4. Validation: The tool was tested to ensure that all functionalities operated correctly and that the recommendations produced were plausible. However, it has not yet been piloted or validated by humanitarian organizations.

In sum, this methodology combines a qualitative research design with an applied decision-support tool. The systematic literature review and narrative synthesis established the conceptual foundation, while the MCDA-based tool operationalized these insights into a practical framework for evaluating financing mechanisms. This dual approach balances theoretical rigor with practical usability, aligning with calls from humanitarian networks for decision-support tools that are simple, adaptable, and accessible to organizations of all sizes.

See an example of MCDA being employed in subheading 10.1.

2 Overview of the humanitarian financing sector

In financial terms, annual humanitarian funding has expanded to unprecedented levels, reaching USD 40 billion in 2022, up from USD 20–25 billion in previous years. Nevertheless, the funding gap has widened: global appeals amounted to USD 56.1 billion in 2023, but only USD 25.1 billion were met, covering just 45% of requirements (OCHA, 2023). In 2024, coverage fell further to 34%, illustrating the deepening mismatch between needs and resources. Moreover, distribution remains uneven, with countries such as Burkina Faso, Chad, Haiti, and Myanmar consistently receiving significantly lower levels of funding than other Humanitarian Response Plans (HRPs) (OCHA, 2023).

Two major pooled funding mechanisms managed by OCHA illustrate both the progress and the limitations of current approaches. The CERF enables rapid disbursement of funds in acute crises but channels resources exclusively through UN agencies, limiting direct access for local actors. CBPFs offer greater flexibility, including direct allocations to national NGOs, which accounted for about 30% of total allocations in 2023. Still, both CERF and CBPFs rely on voluntary contributions, are vulnerable to political priorities, and remain insufficient to address the scale of global needs.

Structural weaknesses undermine the system's effectiveness. Funding is often short-term and unevenly distributed, creating competition among humanitarian actors and disadvantaging smaller or local organizations (Issa et al., 2022). Fragmented reporting frameworks and inconsistent data across platforms such as OCHA's Financial Tracking Service and IATI further complicate transparency and accountability. These shortcomings not only reduce efficiency but also deepen inequities within the humanitarian response system. Addressing these requires stronger coordination frameworks, more transparent funding mechanisms, and deeper integration of innovative approaches; only by improving both the efficiency and equity of funding distribution can the sector strike (Global Humanitarian Overview, 2024). As shown in Table 4.1, while the number of people in need of assistance has remained very high, the proportion of funding requests covered has decreased, from 59% in 2022 to 34% in 2024. This decline illustrates the persistent mismatch between needs and available resources.

Table 2.1 - Requirements vs coverage

	People in need of assistance	Funding Requests	Funding Received	Coverage of funding requests
2022	325.7 million	$51.64 billion	$30.45 billion	59%
2023	363.3 million	$56.09 billion	$25.11 billion	45%
2024	314.7 million	$49.63 billion	$16.84 billion	34%

Note: Adapted from Global Humanitarian Overview 202

2.1 Challenges in humanitarian funding

Traditional financing approaches have encountered key obstacles, which can significantly undermine the effectiveness of humanitarian interventions. It is essential to understand these limitations to develop and improve innovative solutions to address funding gaps and increase the effectiveness of humanitarian interventions(Development Initiatives, 2023). This chapter explores and details the most frequently mentioned challenges in humanitarian funding literature.

2.1.1 Incomplete and inconsistent reporting

According to Issa et al. (2022), incomplete and inconsistent reporting is a significant challenge in the humanitarian financing landscape. Reporting funding in the humanitarian sector is essential for transparency, accountability, evidence-based decision-making, learning, and continuous improvement. The current tracking mechanisms, such as OCHA's Financial Tracking Service (FTS) and IATI, are often inconsistent and fail to track all aid flows, especially from emerging, nontraditional, and private donors.

While FTS is widely regarded as the more universally accepted humanitarian tracking service, each donor or organization adheres to its own set of politics and reporting standards. Consequently, inconsistencies and incongruities persist across various reports. In addition, data is not consistently aggregated on a single platform, hindering a comprehensive overview of the humanitarian funding flows (Issa, 2021).

In 2016, the United Nations High-Level Panel on Humanitarian Financing (2016) released the report "Too Important to Fail", which addressed the funding gap in humanitarian action. To improve the efficiency of humanitarian assistance, the report suggests a Grand Bargain between donors and implementing organizations, in which donors would give more by being more flexible, and aid organizations would reciprocate with greater transparency and cost-consciousness. The Grand Bargain was conceived as a response to this need, seeking to bring together the vast experience and expertise of diverse humanitarian actors to improve preparedness and response to emergency needs. The aim is to create a more efficient, transparent, and collaborative humanitarian response that involves new partners, such as the private sector, individuals, and non-traditional funding sources. Among 51 commitments, categorized into 10 workstreams, the Grand Bargain agreed to harmonize and simplify reporting requirements. Having "a common interest in ensuring that programmatic reporting is substantive and qualitative while also lean enough to allow for the most efficient use of resources to assist people in need"(Inter-Agency Standing Committee, 2016, p. 13), the signatories agreed to:

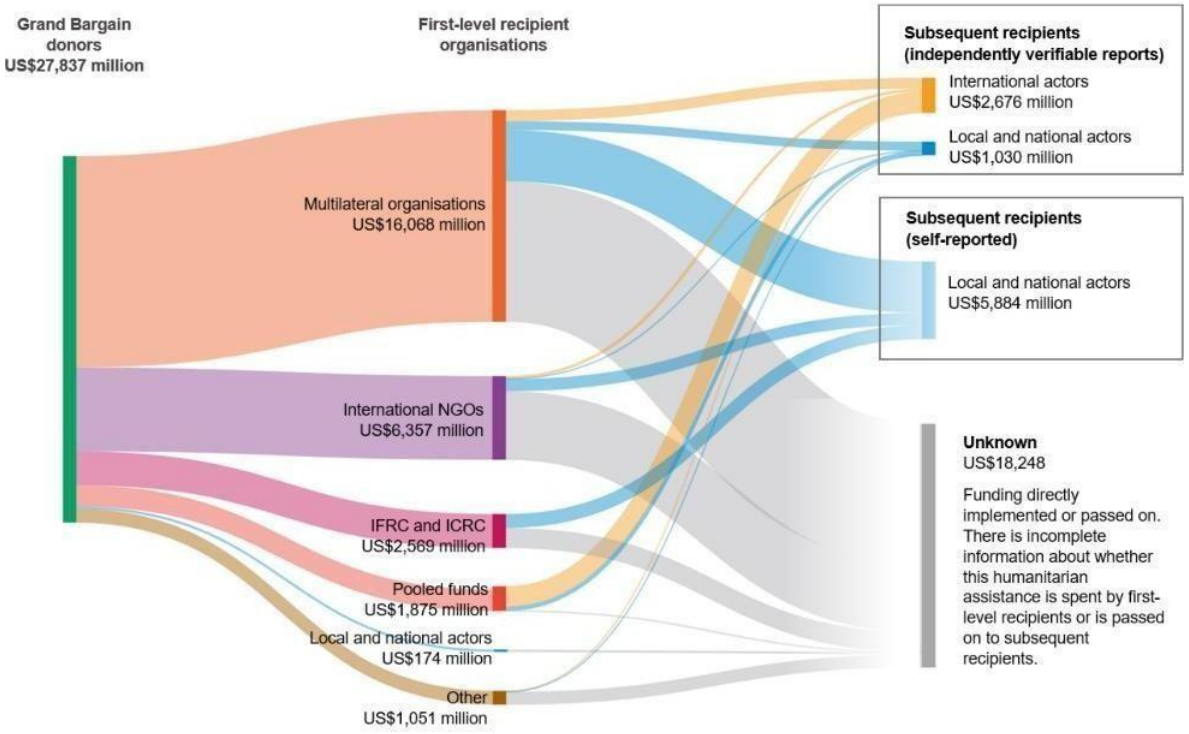
- ‘‘Simplify and harmonize reporting requirements by the end of 2018 by reducing its volume, jointly deciding on common terminology, identifying core requirements, and developing a common report structure.” (Inter-Agency Standing Committee, 2016, p.13)
- “Invest in technology and reporting systems to enable better access to information.” (Inter-Agency Standing Committee, 2016, p.13)
- “Enhance the quality of reporting to better capture results, enable learning, and increase the efficiency of reporting.” (Inter-Agency Standing Committee, 2016, p.13)

In 2017, the German Federal Foreign Office (GFFO), the Global Public Policy Institute (GPPi), and ICVA developed a simplified reporting template called the “8+3 template”. The 8+3 template is a menu of standardized questions that donors can choose based on their specific information needs. The recommendation is to limit narrative reports to a maximum of 8 "core" and 3 "additional" questions, but donors have the flexibility to ask fewer. Even a report addressing just one question aligns with the essence of the 8+3 template. This report was tested in a pilot between 2017 and 2019, with the participation of entities and countries such as Canada, Germany, France, Italy, Norway, Switzerland, Sweden, and the United Kingdom, UNOCHA, UNHCR, UNICEF, and WFP (German Federal Foreign Office et al., 2019)

According to the Grand Bargain Independent report (Metcalfe-Hough et al., 2019), despite significant efforts by the co-conveners and the participating signatory group in the pilot, there is no evidence of a shift in the reporting system or a reduction in requirements. Additionally, despite the Grand Bargain signatories' commitment to provide at least 25% of funding to local and national actors as directly as possible, only 4.4% of their total funding went to local and national actors in 2023, and only 0.6% was provided directly. However, when analyzing self-reported data (which cannot be independently verified) from Grand Bargain intermediaries, these figures rise to 25%. This striking inconsistency between verified funding flows and self-reported figures not only raises concerns about the reliability of reporting practices but also reflects a deeper issue: a disconnect between stated intentions and actual impact(Metcalfe-Hough et al., 2019).

Without greater clarity, transparency, and honest reflection, these commitments risk becoming symbolic rather than transformative for the local actors they aim to support(Development Initiatives, 2024). Figure 5.1 illustrates how Grand Bargain signatory countries distributed their investments across different types of organizations. As shown, there is a significant discrepancy between independently verified data and self-reported figures. According to independent analysis, approximately $1 million was directed to local organizations and actors, whereas self-reports claim the figure is around $5 million. The contrast is striking and raises questions about the accuracy and

consistency of reporting. Notably, the chart also reveals that around $18 million in funding could not be traced, leaving it unclear whether these funds reached end recipients directly or were channeled through multiple intermediaries along the way.



Note: From Development Initiatives. (2024). Falling short: Humanitarian funding and reform (p. 6).

Figure 2.1 - Distribution of international humanitarian assistance from Grand Bargain donors to first-level and subsequent recipients

Taken together, these discrepancies illustrate how the Grand Bargain has struggled to translate its commitments into practice. What was conceived as a transformative reform agenda risk remaining largely symbolic, as progress has been slow, uneven, and insufficient to address structural imbalances in humanitarian financing. This outcome highlights the limitations of voluntary agreements and reinforces the need to explore alternative approaches, including innovative financing mechanisms, which are examined in the following chapters.

2.1.2 Discrepancies between funding requirements and REACH

Humanitarian funding has increased in recent years. Specifically, between 2021 and 2022, financial support from both public and private donors has grown by 27%. However, due to escalating crises in countries such as Ukraine, Afghanistan, and the Horn of Africa, the gap between funding appeals and

reaching has reached a record level. As previously mentioned, according to the Global Humanitarian Assistance report (2023), the number of people in need of assistance in 2022 was 406,6 million, an increase of 32,61% compared to 306,6 million in 2021. In 2022, three-quarters of the population in need of assistance lived in countries that faced at least 2 of 3 possible risk dimensions: conflict, climate, and socioeconomic vulnerabilities (Development Initiatives, 2023).

In this context, 18 of the top 20 public donors[1] increased their donations between 2021 and 2022, and 11 out of 20 increased their assistance by more than 20%. Although humanitarian funding increased by 10 billion US$ between 2021 and 2022, the gap between funding appeals and reach widened to the largest ever. In 2022, humanitarian appeals totaled $52.4 billion, and unmet needs rose to $22.1 billion (Development Initiatives, 2023). By the time the Global Humanitarian Assistance Report was published (2023), UN-coordinated appeals had already exceeded the previous year's totals, reaching $54.9 billion.

According to the Development Initiatives report (2024), “Falling Short? Humanitarian Funding and reform,” he funding gap is worsening the humanitarian response. The lack of sufficient funds to provide adequate humanitarian assistance to those in need results in a shortage of services such as food, WASH, healthcare, and shelter, leaving vulnerable populations without the support they need to survive and recover from crises. Moreover, the repercussions extend beyond immediate needs; access to education and livelihood opportunities becomes uncertain, with long-term consequences, as children will struggle to cope and rebuild their lives as adults. The gap also prolongs humanitarian crises, as it is challenging to address the root causes and develop long-term solutions. Additionally, it increases populations' vulnerability to future disasters because there is a lack of investment in resilience-building activities, hindering people's ability to withstand and recover from disasters. At the governmental level, the widening funding gap places a significant burden on host countries, as they often struggle to meet the basic needs of their own populations and of the displaced and refugee populations they host. The gap can also lead to a diminishing of trust and credibility in the humanitarian system.

Another structural limitation of humanitarian financing is that between 80 and 90 percent of available resources are earmarked for specific projects. This restricts flexibility and prevents organizations from adapting their interventions to rapidly changing needs. Only a small proportion, usually between 5 and 10 percent, can be used to cover indirect costs such as structural expenses, risk management, or preparedness measures. This rigid allocation widens the gap between financial

[1] The Global Humanitarian Report (2023) does not explicitly outline the top 20 public donors. Nevertheless, it reveals that their contributions accounted for 97% of the total public resources in 2022.

requirements and effective humanitarian reach, as it constrains organizations' capacity to adjust their strategies in volatile contexts (Salud Everywhere, 2025).

In addition to the overall resource shortfall, the financing system's structure itself constrains humanitarian impact. The fragmentation across donor mechanisms, combined with the prevalence of earmarked contributions, limits the ability to reallocate funds when crises evolve. The lack of predictable, multi-year funding makes it difficult for organizations to plan strategically and to ensure continuity in protracted emergencies. As a result, significant time and effort are absorbed by the constant need to prepare new project proposals, rather than focusing on rather than focusing on delivering coordinated, sustainable and equitable health responses. (Salud Everywhere, 2025).

2.1.3 Limitation of funding allocation to local and national actors

Local and national NGOs continue to face significant barriers in accessing humanitarian funding directly. Donors often require extensive due diligence processes, compliance checks, and reporting mechanisms that are difficult for organizations with limited administrative and technical capacity to meet. While these procedures are intended to safeguard accountability, they often impose disproportionate burdens on smaller actors and divert resources that could otherwise be used for programmatic delivery (Metcalfe-Hough et al., 2019). The *Humanitarian* Financing Pocket Guide, edited by ICVA (2025), stresses that donor approaches to compliance and risk management often shift responsibility down the chain without sufficiently accounting for local partners' absorptive capacity, leaving them to bear high operational and financial risks (Cliffe, 2025).

Another obstacle is the limited provision for indirect cost recovery. Overheads such as staff, infrastructure, and management are often excluded or capped, which undermines the institutional sustainability of local actors. Guidance from the Inter-Agency Standing Committee emphasizes that the fair allocation of overheads is critical to strengthening local capacities and ensuring long-term resilience, yet this remains the exception rather than the rule (Inter-Agency Standing Committee, 2016). Alongside these structural issues, donor risk perceptions also play an important role. Research on efficiency in humanitarian financing highlights that many donors view direct funding to local NGOs as a high-risk option, whether due to political, financial, or reputational concerns, and therefore prefer to channel resources through larger intermediaries (Stoddard et al., 2017).

As a result, many local and national NGOs remain dependent on subcontracting arrangements with international actors, which give them limited visibility and reduced decision-making power. ICVA’s recent analysis of pooled funds shows that risk is often transferred disproportionately to local partners, who are expected to deliver under strict compliance frameworks without corresponding influence or resources. The report stresses that more equitable risk-sharing mechanisms are necessary to

strengthen the role of local organizations in humanitarian response (ICVA, 2025). The imbalance between rhetoric and practice is further illustrated by the commitments of the Grand Bargain, which aimed to allocate at least 25 percent of funding to local actors by 2020 but has consistently fallen far short of this target (Metcalfe-Hough et al., 2019). Data from the *Global Humanitarian Assistance Report 2023* reinforce this picture, showing that, in practice, only about 1% of total humanitarian funding reached local organizations directly (Development Initiatives, 2023). These barriers reveal a persistent gap between international commitments to localization [2]and the reality of how humanitarian financing is structured and delivered.

2.1.4 The lack of equitable access to funding

According to Development Initiatives (2024), local and national NGOs play a critical role in humanitarian response, often being the first to act during crises due to their proximity, contextual knowledge, and established trust with affected communities. Despite this, they continue to face a pronounced lack of equitable access to funding. The global distribution of humanitarian resources, presented previously, illustrates this imbalance: in 2023, more than 60% of humanitarian financing went directly to UN agencies, around 39% was channeled to international NGOs, while only about 1% reached local and national organizations directly. This pattern reflects structural inequalities embedded in the funding architecture and perpetuates the marginalization of local actors.

In most cases, local NGOs receive funding indirectly, through subcontracting arrangements with UN agencies or international NGOs. This creates a dependency that limits their autonomy and reduces their influence in decision-making. Recent analysis of pooled funds by ICVA shows that while some progress has been made in granting local actors direct access, risk is still disproportionately transferred to them, without corresponding resources or decision-making power (Hughes et al., 2025). Such dynamics not only undermine the institutional sustainability of local organizations but also perpetuate a model that sees them primarily as implementers rather than equal partners (Hughes et al., 2025).

Although initiatives such as the Grand Bargain sought to increase direct funding to local actors, the actual proportion allocated has remained marginal. Independent assessments consistently show that these commitments have not translated into practice, reinforcing the systemic inequities that prevent meaningful localization (Inter-Agency Standing Committee, 2016).

Beyond the structural inequalities of the system, many local organizations also struggle to access innovative sources of financing. Instruments such as blended finance, outcome-based grants, or social

[2] "Localization means increasing international investment and respect for the role of local actors, with the goal of increasing the reach, effectiveness and accountability of humanitarian action.
It is also a way of re-thinking the humanitarian sector from the ground up—recognizing that the overwhelming majority of humanitarian assistance is already provided by local actors" (*Localization | IFRC*, n.d.)

impact bonds often require technical expertise, financial modelling capacity, and legal frameworks that smaller NGOs do not possess (Farber et al., 2024).

“Accessing humanitarian innovative financing poses significant challenges for NGOs, especially Local/National NGOs. The project pipeline remains narrow, as projects are complex and time-intensive to design, further compounded by high risk levels, regulatory hurdles, and legal barriers. Many NGOs lack the awareness, technical expertise, and infrastructure needed to work with advanced financial instruments and approaches” (ICVA, 2025, p. 7).

Similarly, a report by the Norwegian Refugee Council highlights that while donor innovation funds and crisis financing mechanisms exist, local NGOs often lack the visibility, resources, and skills to apply successfully, leaving these opportunities confined mainly to larger international actors (Rieger & Girling-Morris, 2024).

These factors combine to create a systemic inequity in humanitarian financing. Local and national NGOs remain at the periphery of funding flows, excluded not only from traditional mechanisms but also from innovative approaches that are presented as solutions to the humanitarian funding gap. The consequences are twofold: local actors remain dependent on international intermediaries, and the sector fails to harness the full potential of organizations that are closest to the communities affected by crises (ICVA, 2025).

2.2 Defining humanitarian innovation

The term humanitarian innovation was first conceptualized in 2009 by ALNAP at its 25th annual meeting, which showcased 23 ‘real-world examples of innovations that have helped to change how humanitarian action is delivered’. This initial framework was further supported by the establishment of a Humanitarian Innovation Fund, hosted at Save the Children. Within a few years, notable organizations such as the World Food Programme and OCHA followed suit by creating their own innovation grants, with similar initiatives launched by UNHCR and the ICRC (Scott-Smith, 2016). However, despite this burgeoning support, there remains a pressing need for a more comprehensive understanding of innovation within the humanitarian aid sector (Bruder & Baar, 2024).

Building on this foundation, the World Humanitarian Summit in 2016 affirmed "transformation through Innovation" as one of its core commitments to reforming the aid industry. This commitment encompassed not only the adoption of new technologies but also innovative ways to frame humanitarian problems, new modalities for resource mobilization, and partnerships with actors traditionally outside the humanitarian system(Scott-Smith, 2016). Policy analysts have championed this perspective, arguing that the sluggish bureaucracy of international aid, which generally relies on public-sector channels, is inadequate to address the unprecedented challenges of global displacement (Betts & Bloom, 2014). They advocate for leveraging market forces to rapidly operationalize humanitarian solutions at scale (Bruder & Baar, 2024)

In light of these discussions, ALNAP recognizes that the term "innovation" poses challenges in its definition. Given the complexities of innovative research, which various factors and actors can influence, the “More than just luck” report (Obrecht & Warner, 2016) delineates three specific dimensions to better understand and define innovation within the humanitarian system and its future applicability. These dimensions encompass the focus and scope of the innovation (the "what"), the process of innovation in theory and practice (the "how"), and the organization and individuals involved, as well as external political, economic, or social factors (the "context").

Bruder and Baar (2024) conducted a systematic review on innovation in humanitarian action assistance. Their study aimed to evaluate its evolution, definitions, characteristics, and impact, and to identify key factors influencing its success. Among the 301 publications analyzed by the authors, only 25% provide a definition or state the purpose of innovation in the humanitarian context.

Even prominent institutions in the sector differ in their definitions. For instance, OCHA's definition contrasts starkly with USAID's[3], the largest single donor. According to OCHA, "Innovation does not require the creation of something novel; it may also include the adaptation of something existing to a different context"(Betts & Bloom, 2014). Furthermore, OCHA does not specify a minimum requirement of change for it to be considered an innovation (Betts & Bloom, 2014). In contrast to this broad and practical interpretation of innovation, USAID (cited in Bruder & Baar, 2024, p. 9) defines it as "novel business or organizational models, operational or production processes, or products or services that lead to substantial improvements (not incremental 'next steps') in addressing [humanitarian] challenges."

According to the authors, the conceptualization of humanitarian innovation lacks focus on the process, i.e., how innovation is created. Instead, it is "overwhelmingly" outcome-based, focusing on the product. However, the process has been considered more from a systems perspective (Ramalingam et al., 2009) and the role of multiple actors in the innovation processes, along with their relationships and interactions, has gained attention, leading to the idea of a system of innovation.

Ramalingam et al. (2009), in the Innovations in International Humanitarian Action ALNAP report, argue that despite advancements in humanitarian learning and accountability, the humanitarian system often fails to explore truly new and different ways of operating.

According to Burder and Baar (2024), current approaches to innovation have led to the development of singular products and processes but have not achieved the desired transformational effect in the sector. The performance of the humanitarian innovation system, shaped by the interplay of actors, institutions, and contextual factors, determines its ability to achieve transformational change. Performance outputs can be conceptual (definitions) or tangible (innovation outputs, strategies, targets).

Those involved in humanitarian assistance must acknowledge the interrelationship between these components, as improving only one aspect while neglecting others may not yield the desired outcomes. In summary, a systemic approach to humanitarian innovation, encompassing the diverse and interconnected elements of the innovation system, is essential for achieving meaningful and lasting improvements in the sector (Bruder & Baar, 2024). Therefore, Burder and Baar (2024) propose explicitly managing humanitarian innovation as a system to understand better the complex, multifaceted factors that shape innovation processes. This concept recognizes innovation's complex, interdependent, networked, and socially embedded nature (Bruder & Baar, 2024). Among several definitions of an innovation system, the authors suggest that a proper one was launched by

[3] As of 11:59 p.m. EST on Sunday, February 23, 2025, all USAID direct-hire staff worldwide were placed on administrative leave, except for those assigned to mission-critical roles, core leadership positions, or specially designated programs.(Development, n.d.)

Grandstand and Holgersson (2020), presenting it as “the evolving set of actors, activities, and artefacts, and the institutions and relations, including complementary and substitute relations, that are important for the innovative performance of an actor or a population of actors".

The components of the humanitarian innovation system can be categorized into four main areas (Granstrand and Holgersson, 2020, in Bruder and Baar, 2024):

Actors: This component refers to the system's various actors and their roles in driving innovation. Key elements from the literature highlight the inclusion of the affected population, collaboration among stakeholders, and the innovation capacity of these actors.

Institutions: Institutions encompass both formal and informal habits and practices in actors’ interactions, their relationships, and networks. They shape how things are done within the system and can either inhibit or encourage innovation. Elements include evidence-based approaches, financing models, the humanitarian innovation market, and the ethics and principles guiding these institutions.

Contextual factors: These are factors external to the system that introduce innovation inputs, affect the humanitarian innovation system, and may cause it to change and evolve. Important elements include technological development and the humanitarian development nexus.

Output and performance: This refers to the types of innovations resulting from the system and the degree of 'success' they achieve in terms of scale and impact. Key elements include innovation conceptualization (addressing the lack of definitions), the types of innovation introduced into the field (noted as technophilia), and the approach to innovations at the project level rather than holistically.

By considering these components, actors, institutions, contextual factors, and output and performance, within the humanitarian innovation system, it becomes possible to identify and address the various elements that influence the effectiveness and efficiency of innovation in humanitarian contexts. This systematic approach can help design better strategies to foster innovation, ensuring it is not only introduced but also effectively implemented and scaled to maximize impact (Bruder & Baar, 2024).

2.2.1 Successful innovation

To properly evaluate innovation, defining its success criteria is important; for example, how can we effectively identify and measure its success? Obrecht & Warner (2016) expose these criteria as summarized in Table 6.1:

Table 2.2 - Criteria for Successful Innovation

Criteria of Success	Description
Adoption	The innovation is scaled and used by others to improve humanitarian performance.
Improved Solution	The innovation is scaled and used by others to improve humanitarian performance.
Consolidated Learning and Evidence	New knowledge generated or the evidence base enhanced around the area the innovation is intended to address, or the performance of the innovation itself

Note: Adapted from (Bruder & Baar, 2024)

The improved solution criteria highlight the perspective issue, as improvements can vary for different stakeholders. In the humanitarian sector, problems and solutions are complex and multifaceted. What may be considered a 'solution' for a donor or agency might not be seen as a solution by field staff or the affected people. Thus, an innovation may be considered only partially failed and not entirely unsuccessful. For example, an innovation might not be diffused and adopted by other actors, but as long as it generates knowledge that is consolidated, it is considered a good failure(Bruder & Baar, 2024). The literature distinguishes between good and bad failures (Bruder & Baar, 2024). For example, the presented situation represents a good failure, as at least one criterion was met. However, no quantitative information is available to assess whether an innovation was successful (Bruder & Baar, 2024).

Having examined the concept of humanitarian innovation and the multiple ways in which it is defined and practised, it is now important to return to the core challenge that underpins this dissertation: the structural funding gap and the limitations of existing financing models. Innovation in this context should not be seen as an abstract principle but as a practical means of addressing these systemic shortcomings. The following chapter, therefore, focuses on humanitarian innovation finance, exploring how innovative financial mechanisms are being applied to expand resources, improve efficiency, and reduce the vulnerabilities created by the current funding architecture.

3 Humanitarian Innovation Finance (HIF)

This chapter introduces the concept of Humanitarian Innovation Finance (HIF), outlining how the sector is evolving from traditional grants to market-based instruments. It maps the continuum of tools available, clarifies the conditions under which each is appropriate, and highlights their relevance for closing structural funding gaps.

Humanitarian financing still relies mainly on government and private grants, which can no longer keep up with rising needs and funding gaps. New sources of capital are essential, marking the start of the Humanitarian Impact Finance (HIF) era. Part of the solution lies in shifting from short-term grants to longer-term tools like debt, equity, guarantees, or insurance. By combining public and private capital, Humanitarian Impact Finance (HIF) seeks to deliver mainstream, market-based solutions to crises in protracted settings (Farber et al., 2024). This collaboration allows greater innovation and risk-sharing than traditional grant models, while also opening new ways to mobilize private capital through financial instruments (ICVA, 2025).

HIF has emerged in response to these challenges, aiming to expand the resource base beyond traditional grants. Its ambition is to mobilize capital that can invest in long-term infrastructure, reduce costs, improve delivery, stimulate local economic development, and enable new ways of working in fragile contexts. In doing so, HIF seeks to contribute to a shift away from aid dependency towards more sustainable investment approaches (Farber et al., 2024).

According to Farber et al. (2024), mapping the humanitarian investment continuum can play a key role in this shift. By clarifying who does what, at which stage, and with what investment criteria, it becomes easier to match the correct type of financing with the right actor at the right time. This, in turn, lowers the barriers to innovation and increases the chances of successful implementation on the ground. In this sense, lowering barriers means reducing the uncertainty and fragmentation that make it hard for humanitarian actors, particularly smaller NGOs, to access innovative financing. Mapping the investment continuum clarifies which instruments are available, who provides them, and under what conditions, helping to match funding types with actors and increasing the chances of successful implementation, since the investment is more likely to fit the specific case and the needs of the humanitarian actor.

Choosing the right financial instrument starts with understanding the specific problem to be addressed and the organization's financial capacity. The first key question is whether the organization can realistically repay the funds within a few years. If not, grants or equity (investors take ownership, share risk and returns, mobilizing private capital alongside humanitarian funds) might be more appropriate options (Farber et al., 2024).

The next subheadings provide brief descriptions of the main financial instruments.

3.1 Non-repayable instruments

Non-repayable funding remains the cornerstone of humanitarian financing. For decades, the majority of humanitarian resources have been channelled through grants provided by governments, international organizations, and private donors. Grants are attractive because they do not need to be repaid, which makes them accessible to a wide range of organizations, including small and medium-sized NGOs. At the same time, they are often rigid, tied to narrowly defined project activities, and rarely cover indirect costs such as staffing, infrastructure, and administration, thereby undermining the long-term sustainability of organizations (Inter-Agency Standing Committee, 2022). Evidence from a study of local NGOs in Jordan confirms both the accessibility and the limitations of grant-based funding. Of the 69 organizations surveyed, 44 had received at least one grant, indicating that this mechanism is accessible to small and medium-sized NGOs. The majority of these grants ranged from USD 10,000 to 50,000, amounts typically within reach of smaller organizations. However, most lasted only 1–3 years, reinforcing the idea that they are tied to specific projects and do not contribute to long- term sustainability. In addition, the study highlights that partner capacity assessments conducted by INGOs are heavily oriented towards financial compliance and accountability, which creates barriers and shows that grants are often linked to narrowly defined project activities and rarely cover indirect costs (Abu-Serdaneh et al., 2022).

Within this category, however, a diversity of instruments has emerged, reflecting attempts to adapt the traditional model to new needs and contexts. One example is General operating support, also known as core funding, in which donors provide flexible contributions to support an organization's overall functioning (Farber et al., 2024). This form of funding is generally reserved for large UN agencies or major INGOs, which benefit from regular multi-year core contributions from donor governments. In contrast, most NGOs rely on program development support tied to specific outputs and timelines. A variant of this model is the outcome-based grant, in which disbursements are conditional on the achievement of pre-agreed results, which require more rigorous monitoring and evaluation systems (Farber et al., 2024). As already shown in Chapter 6, in 2023, more than 60% of humanitarian funding went directly to UN agencies, about 39% to INGOs, and only around 1% to local NGOs, confirming that

flexible, multi-year institutional funding is concentrated among traditional actors, while smaller organizations remain reliant on project-based grants (Development Initiatives, 2023).

Other examples are matching grants (also known as challenge funds), in which the donor provides funds on the condition that the grantee mobilizes additional resources from other partners or communities (Farber et al., 2024). This mechanism is intended to encourage co-investment and local ownership, but in practice, it favours organizations with extensive networks and financial stability, placing smaller NGOs at a disadvantage (ICVA, 2025). The United Kingdom's former Department for International Development (DFID), now part of the Foreign Commonwealth and Development Office (FCDO), was among the pioneers in establishing such funds, including the Civil Society Challenge Fund, which between 2000 and 2015 financed more than 500 projects worldwide (International Committee of the Red Cross, 2020). Capital funding support refers to grant-based financing allocated explicitly to capital investment projects; grants are most commonly used for building construction, green infrastructure, property acquisition, or similar expansion campaigns(Farber et al., 2024). Emergency pooled funds also fall within the category of non-repayable mechanisms. The CERF and CBPFs, managed by OCHA, mobilised over USD 1.16 billion in 2023, with around 30% channelled directly to local NGOs (OCHA, 2023). These funds provide rapid, flexible funding during crises and, at least in theory, broaden access beyond a narrow circle of international actors. In sum, while non-repayable funding remains the most traditional form of humanitarian finance, it encompasses a wide range of models. Some remain highly rigid and project-driven, while others introduce elements of competition, flexibility, or innovation. Together, they illustrate both the resilience of the grant-based model and the efforts to adapt it to the evolving demands of humanitarian action(Farber et al., 2024).

Across the different instruments reviewed, from traditional grants, program development support, and outcome-based funding to challenge funds, each brings distinct advantages and limitations. Grants remain accessible and widespread but are often rigid; Capital funding, although not directly criticised in the documents reviewed, can be inferred to face potential challenges, namely a certain rigidity, the risk of prioritising visible infrastructure over less tangible needs, and the exclusion of smaller organisations because of the scale and management capacity required; outcome-based or matching schemes encourage accountability and co-investment yet disadvantage smaller NGOs as they tend to favour large INGOs with strong administrative capacity (ICVA, 2025).

Despite this diversification, several authors highlight a recurring debate: rather than making funding more accessible to frontline actors, many of these instruments primarily serve to reinforce donor oversight and control. Another critique concerns the lack of conceptual clarity and theoretical coordination among different actors. Certain types of financing that could arguably be considered humanitarian financing tools are not categorised or consistently addressed. For instance, several

documents refer to crowdfunding, innovative prizes, and other such mechanisms; however, none explicitly identify them as tools, approaches, or any other defined category. This raises a further concern: if leading institutions investigating the field, such as ODI, ICVA, or the OECD, are not consistent or transparent in their definitions, how can a reliable and comprehensive overview of humanitarian finance ever be achieved? For instance, ICVA (2025) refers to humanitarian crowdfunding, which has grown in recent years, enabling organizations to mobilize resources directly from individuals via platforms such as GlobalGiving or GoFundMe. However, it is not clear which category it falls under. Nonetheless, it has considerable significance for small NGOs. For instance, GlobalGiving, a crowdfunding platform, reports having channelled more than US$1.05 billion from nearly 2 million donors to over 40,000 projects worldwide since 2002 (GlobalGiving Foundation, 2022).

3.2 Repayable instruments

Although grants remain the primary source of humanitarian financing, their rigidity and limited scope have proven insufficient in the face of exponentially growing needs and structural funding gaps (ODI, 2024).

Repayable instruments such as debt or guarantees emerge in HIF as mechanisms capable of mobilizing larger volumes of capital, supporting long-term investments, and fostering financial innovation. However, they also involve higher risks, repayment requirements, and access barriers that particularly affect organizations with lower financial capacity (Farber et al., 2024).

Debt instruments are defined by their obligation of repayment, regardless of whether the project succeeds or not. In most cases, borrowers pay interest or fees, and lenders often require collateral [4]to secure repayment. While humanitarian organizations may sometimes benefit from more flexible terms, default can still result in reputational damage and restricted access to future financing (OECD, 2020). At the same time, debt financing has the advantage of filling urgent funding gaps and, because capital is repaid, it can be recycled to support multiple initiatives over time, thereby increasing overall impact (Farber, et. al, 2024). Concessional loans are loans offered at below-market interest rates and with more favourable repayment terms, such as more extended grace periods or lower collateral requirements. They are most suitable for organizations that can generate a certain level of income, either through social enterprises or service delivery models linked to humanitarian work. For example, the World Bank created the IDA18 Refugee Sub-Window to provide highly concessional financing for projects in countries hosting large refugee populations, enabling investment in services and infrastructure with repayment terms that would otherwise be unattainable (World Bank, 2017). The

[4]Valuable property owned by someone who wants to borrow money, that they agree will become the property of the company or person who lends the money if the debt is not paid back(*Collateral*, 2025)

main advantage of concessional loans is that they unlock access to larger pools of capital than grants do, enabling long-term investment financing. However, they also expose organizations to the risk of indebtedness if projected revenues do not materialize, making them inaccessible to most local NGOs with unpredictable cash flows (Stoddard et al., 2017).

Another group is equity-like instruments, which include recoverable grants and patient capital. Recoverable grants are funds provided upfront on the condition that they are repaid if the project succeeds, blending elements of philanthropy and investment. Patient capital refers to equity provided with longer time horizons and lower return expectations, prioritising social impact over immediate profitability. These models have been used in “frontier markets” initiatives, particularly in fragile contexts where commercial investment is scarce but social enterprises are emerging (Farber et. al, 2024).

In summary, repayable instruments open new possibilities for humanitarian finance by mobilising capital at a scale far beyond grants, enabling financing of extensive infrastructure or service delivery in protracted crises (König et al., 2020). However, they remain largely out of reach for most local and national NGOs. One key reason is that these instruments require repayment capacity and predictable revenue streams, which most local organisations lack (Farber et al., 2024). Moreover, the risks of indebtedness and reputational damage in case of default are particularly high for smaller actors with limited reserves (Stoddard et al., 2016). Finally, the complexity of structuring debt or equity instruments, including negotiating concessional loans, handling collateral, and complying with donor safeguards, requires financial expertise that is generally concentrated in larger INGOs or governments, rather than in local NGOs (ICVA, 2025).

3.2.1 Guarantees and insurance

Guarantees and insurance are two mechanisms designed to reduce risk in humanitarian financing and to improve access to capital for organizations operating in fragile contexts. While traditional donor funding is often reactive and slow, these financial instruments enable actors to anticipate and share risks, thereby facilitating faster, more reliable responses(König et al., 2020).

A guarantee is essentially a promise by a third party to cover a loan if the borrower defaults. Guarantors can include governments, foundations, international banks, or development finance institutions. By reducing lenders' risk, guarantees enable organizations to obtain credit on better terms than they would otherwise (OECD, 2020). In the humanitarian field, guarantees have been used to unlock capital that would otherwise remain inaccessible. A notable example is the Humanitarian Impact Bond launched by the International Committee of the Red Cross (ICRC) in 2017. Through this

mechanism, private investors provided upfront capital to build and operate rehabilitation centres for people with disabilities in Nigeria, Mali, and the Democratic Republic of Congo. Outcome funders, including the governments of Belgium, Switzerland, and the United Kingdom, committed to reimbursing investors if results were achieved, while guarantees reduced the perceived risk of investor losses. This arrangement enabled the ICRC to mobilise CHF 26 million in private investment, which would have been unattainable without risk-sharing guarantees (ICRC, 2017). While effective, guarantees are complex and usually limited to large international organizations or consortia with the capacity to manage sophisticated contracts(König et al., 2020).

Insurance provides another way of addressing risk, based on the principle of pooling and transferring potential losses(Farber et al., 2024). Most humanitarian funding is reactive: in crises such as the 2015 earthquakes in Nepal or the Rohingya refugee influx in Bangladesh in 2017, responders waited more than two months for donor pledging conferences, missing the critical window for urgent response. Insurance mechanisms allow actors to act proactively by securing rapid liquidity when predefined events occur (Farber et al., 2024).

One of the most prominent examples is disaster risk insurance, which provides payouts when shocks such as droughts, floods, or earthquakes occur. A particularly innovative form is parametric insurance, in which disbursements are triggered automatically when thresholds, such as rainfall levels or seismic intensity, are met. Because no proof of loss is required, funds are released much faster than in traditional indemnity insurance (Clarke & Dercon, 2016). The African Risk Capacity (ARC), established by the African Union, has pioneered this model in sub-Saharan Africa, providing governments with parametric insurance for drought and floods based on advanced risk modelling. When triggers are met, payouts are released within weeks, enabling governments to finance contingency plans and protect vulnerable populations (African Risk Capacity Limited, 2020). Similarly, the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) has provided rapid payouts to Caribbean states after hurricanes and earthquakes since 2007, often within two weeks of the disaster (CCRIF SPC, 2018).

At the micro level, microinsurance schemes have been piloted to protect households and smallholder farmers in crisis contexts. Policies can be voluntary or mandatory and target individuals, households, or groups. While promising, their reach remains limited, as premiums are often unaffordable without donor subsidies or integration into social protection systems(Merry & Calderon, 2025). Insurance has also been integrated into anticipatory humanitarian action. The IFRC and OCHA have piloted forecast-based financing models that combine insurance with early warning systems, releasing funds automatically for preparedness activities before disasters fully unfold (International Federation of Red Cross and Red Crescent Societies, 2020).

Despite their potential, guarantees and insurance face important limitations. Guarantees tend to be administratively complex and restricted to large actors with high capacity, while insurance

premiums can be prohibitively expensive for poorer countries. Moreover, insurance is well-suited for climate-related shocks that can be modelled statistically, but it is much less effective in conflict-related crises. For small and local NGOs, direct access to either guarantees or insurance is rare, and they usually benefit only indirectly through governments or international agencies that purchase coverage on their behalf (ICVA, 2025).

In sum, guarantees and insurance are valuable instruments for redistributing and mitigating risk in humanitarian financing. Guarantees reduce the risk of lending and help organizations access credit on more favourable terms, while insurance provides liquidity to enable faster responses to disasters. Together, they illustrate how financial tools can complement traditional donor funding by promoting anticipation, preparedness, and resilience. However, accessibility remains skewed towards larger actors with the technical capacity to engage in such mechanisms.

3.2.2 Results-based / Outcome-Based Finance instruments

Results-based instruments are financing mechanisms in which disbursements are made only when pre-agreed outcomes are achieved. The logic is to align incentives between donors, investors, and implementing agencies, promoting efficiency, innovation, and accountability (König et al., 2020).

Impact bonds are the best-known form of results-based financing. In this model, private investors provide the upfront capital to implement a project, and donors or governments commit to repaying the investors, sometimes with a return, only if an independent evaluation confirms that the agreed outcomes have been delivered (OECD, 2020). This approach transfers the financial risk of failure from the donor to investors, while also encouraging implementers to innovate to maximize impact.

The Humanitarian Impact Bond (HIB) launched by the International Committee of the Red Cross (ICRC) in 2017 remains the most prominent example in the humanitarian field. The HIB mobilised CHF 26 million to fund physical rehabilitation centres for people with disabilities in Nigeria, Mali, and the Democratic Republic of Congo. Private investors provided the initial funds, outcome funders (including the governments of Belgium, Switzerland, and the United Kingdom) committed to reimburse them if results were achieved, and an independent evaluator assessed performance. Guarantees offered by some donors reduced investors' perceived risk, making participation more attractive (International Committee of the Red Cross, 2020)

Another case is the Refugee Livelihoods Development Impact Bond, piloted in Jordan and Lebanon, which aimed to support job creation for refugees and host communities through an outcome-based contract (Borkum, et al., 2024). These experiences suggest that impact bonds can be

adapted to different crisis contexts, provided that outcomes are measurable and investors are willing to assume part of the risk.

Despite these promising examples, results-based instruments face important limitations. They are technically complex and costly to design, requiring strong legal frameworks, sophisticated monitoring and evaluation systems, and reliable baseline data. Transaction costs are therefore high, which explains why most initiatives to date have been limited to larger international organizations and government-led consortia (OECD, 2021). Moreover, the reliance on measurable indicators risks excluding outcomes that are harder to quantify but equally important, such as social cohesion or empowerment.

In summary, results-based instruments, such as impact bonds, introduce new ways to link financing to performance in humanitarian contexts. They can incentivise innovation and shift risk away from donors, but their complexity, high transaction costs, and demanding monitoring requirements limit their accessibility to a small number of large actors. For local and national NGOs, the barriers remain considerable, reinforcing the broader challenge of inequitable access to innovative financing mechanisms(Farber et al., 2024). Visit table A.1- Financial Tools in the appendix for an overview of the tools.

In sum, Chapter 7 shows that although HIF expanded the available resource base and allowed for longer-term investments, access remains unequal. Non-repayable tools keep dominating because many actors lack the repayment capacity or institutional readiness. Repayable instruments (loans and equity) and risk-sharing tools (guarantees and insurance) can mobilize new capital, but their complexity limits uptake by smaller or local actors. These findings directly reinforce the importance of matching instruments to organizational capacity (a need addressed through the analytical tool developed later). The next chapter categorizes these instruments into broader innovative financing approaches, illustrating how tools are structured and combined in practice.

3.3 Humanitarian Innovative Financing Approaches

As discussed in Chapter 7, it is important to distinguish between tools (or instruments) and approaches. While instruments such as grants, debt, guarantees, insurance, or equity describe specific financial tools that have long existed in other sectors, approaches describe how these instruments are combined and applied within humanitarian settings. In this sense, innovation lies less in the invention of entirely new instruments and more in how humanitarian actors structure, sequence, and operationalize them in partnership with other stakeholders. Approaches thus capture the modalities through which financing is mobilized and delivered, reflecting not only technical design but also governance and collaboration models (Farber et al., 2024).

The need for such approaches is underscored by the limitations of the current system, which still relies heavily on fragmented and short-term grant funding. The Blended Finance in Fragile Contexts: Opportunities and Risks report (Basil, et al, 2024) stresses that fragile settings require mechanisms capable of mobilizing longer-term and more predictable flows of capital (Basil, et al, 2024).

Building on this, the *KfW Innovative Development Finance Toolbox* (König et al., 2020) introduces the concept of InnoFins (innovative development finance mechanisms). These can be understood as approaches (families of financial instruments) that, when combined in new ways, mobilize additional funds and ensure that resources are used more effectively and efficiently. The selection of InnoFins presented in the Innovative Development Finance Toolbox (2020) was guided by criteria of representativeness (reflecting the diversity of mechanisms being applied/ developed in the humanitarian/development sector) and practical relevance (that can be applied in real development and humanitarian contexts - not only conceptual ideas). Instruments were included because they display distinct and identifiable characteristics, allowing them to be grouped into coherent families. Although the authors do not explicitly define the set of characteristics, a close reading shows that their analysis of each InnoFin consistently revolves around aspects such as financial structure (whether the instrument takes the form of a grant, a loan, equity, a guarantee or insurance scheme); the risk allocation (who bears the financial or performance risk, and whether returns are guaranteed, conditional, or uncertain); and payment mode (non-repayable transfers, repayable with interest, dividends, or payments contingent on results).

Furthermore, the toolbox demonstrates practical application through concrete case studies that illustrate how they operate in practice. In addition, the selected instruments show potential for scale and for mobilizing private capital, which increases their relevance for development and humanitarian finance. Finally, they align with the priorities of the Addis Ababa Action Agenda (which contains policy actions and measures contributing to the 2030 Agenda for Sustainable Development), namely

mobilizing additional private investment, strengthening local capital markets, and promoting debt sustainability (König et al., 2020).

The authors stress that the toolbox should be regarded as a representative and didactic sample rather than an exhaustive list, recognizing that other innovative financing mechanisms were not covered by the report (König et al., 2020).

The core objectives of InnoFins are threefold: to mobilise private capital by making projects more attractive to investors; to strengthen local capital markets, for instance through local currency finance and securitisation; and to promote debt sustainability by reducing the risk of over-indebtedness through instruments such as policy-based finance or insurance. The toolbox organizes the financial instruments in 3 major groups (clusters/families): Funds & Facilities (within Facilities, Endowments, Structured Funds, Flat Funds); Results- and Policy-Based Finance (within Results-Based Finance, Outcomes-Based Finance, Policy-Based Finance); and Risk Participation & Market Instruments (within Guarantees, Bonds, Insurance, Local Currency Finance, Securitisation). Each cluster has mechanisms with similar features but varying subcategories, allowing for adaptation to different contexts. Together, they represent a flexible toolbox in which innovation lies not in creating entirely new instruments, but in strategically combining existing ones to maximise impact, reduce risks, and attract additional flows for sustainable development (König et al., 2020). Table A1 in the appendix presents this factsheet overview.

3.3.1 Funds and Facilities

The Funds & Facilities category does not correspond to a single instrument but rather to a family of innovative financing mechanisms whose common denominator is the pooling of capital, usually from multiple donors or investors, into a standardized vehicle to finance development projects (KöniG et al., 2020). The distinctive element of this category lies in the way capital is structured and operationalised, which can take different forms: facilities, which mainly pool donor grants; endowments, based on the creation of permanent funds whose returns are applied to development activities; structured funds, organised into risk-return tranches to attract a variety of investor profiles; and flat funds, unstructured funds in which all participants assume similar conditions. This internal diversity reflects the flexibility of the Funds & Facilities cluster in adapting to different contexts and development policy objectives (König, et al, 2020).

3.3.2 Facilities

According to both Koning et al. (2020) and Farber et al. (2024), facilities consist of multilateral or multi-donor funds, essentially composed of concessional grants channelled into development projects. They

are particularly used in the early design and preparation phases, to promote innovation, or to support start-ups and SMEs, precisely where private investment is scarce due to high risk and a lack of project maturity. Beyond direct financing, facilities play a significant role in coordinating donors, aligning priorities, and enhancing collective efficiency. Although they do not attract direct private capital, they generate indirect effects by preparing project pipelines, reducing risks, and providing technical assistance, which in turn allows private investment to step in at later stages under safer conditions and with stronger prospects for returns. Beyond direct financing, facilities play a significant role in coordinating donors, aligning priorities, and enhancing collective efficiency. Although they do not attract direct private capital, they generate indirect effects by preparing project pipelines, reducing risks, and providing technical assistance, which in turn allows private investment to step in at later stages under safer conditions and with stronger prospects for returns.

From Koning et al. (2020) 's perspective, facilities are assessed in terms of their contribution to mobilising additional resources, strengthening local capital markets, and safeguarding debt sustainability. Their mobilisation effect is considered moderate and primarily indirect, while their contribution to local markets remains limited, except when local currency instruments are used. By contrast, their impact on debt sustainability is substantial, as the predominance of grants prevents the debt burden of beneficiary countries from rising.

From Farber et al. (2024) perspective, facilities are valued not only for their financial leverage but also for their ability to align stakeholders, raise the profile of underfunded issues, and provide a platform for donors to operate in fragile contexts where their direct presence may be limited. In this sense, facilities contribute to innovation and collective learning in humanitarian finance, while also supporting neglected themes.

The perspectives provided by these two sources are complementary rather than contradictory: Koning et al. (2020) adopt a more technical and financial perspective, focusing on issues such as the mobilisation of private capital, the strengthening of local capital markets, and the impact on debt sustainability. Farber et al. (2024), by contrast, take a more humanitarian and strategic perspective, highlighting the role of facilities in donor coordination, raising the profile of underfunded issues, and enabling engagement in fragile contexts.

Examples include the Geothermal Risk Mitigation Facility (GRMF), which covers initial exploration costs in geothermal projects in East Africa; the InsuResilience Solutions Fund (ISF), which develops climate risk insurance solutions; the African Enterprise Challenge Fund (AECF), which supports, through competitive calls, innovative business projects in sectors such as agribusiness and renewable energy; and the Women Entrepreneurs Finance Initiative (We-Fi), which mobilizes public and private resources to expand access to finance for women-owned businesses in developing countries.

Concrete illustrations of these functions can be found in several existing facilities. The GRMF in East Africa, for instance, covers the initial exploration costs of geothermal projects, absorbing risks that would usually deter private investors and preparing the ground for later-stage finance (Koning et al., 2020). The same facility is also described as an example of how early-stage concessional funding can unlock subsequent investment flows (Farber et al., 2024).

The ISF provides another illustration. Established by KfW on behalf of BMZ, it supports the development of innovative climate risk insurance solutions in developing countries through grant-based co-funding (Koning et al., 2020). It has also been noted for its contribution to adaptation and resilience-building by making climate insurance markets viable in fragile contexts (Farber et al., 2024).

Similarly, the AECF demonstrates how facilities can stimulate entrepreneurship. It finances innovative agribusiness and renewable energy projects through competitive calls, using grants and concessional loans to support SMEs that would otherwise struggle to access capital (Koning et al., 2020). It is also highlighted as an illustration of how pooled donor resources can promote coordination while supporting local innovation (Farber et al., 2024).

Finally, the We-Fi focuses on expanding access to finance for women-owned businesses. It is presented as a thematic facility that mobilises concessional and commercial resources for gender-sensitive entrepreneurship (Koning et al., 2020). Other accounts emphasise its broader achievements, noting that it has mobilised over USD 3.6 billion and supported more than 158,000 women entrepreneurs in 80 countries since 2017 (Farber et al., 2024).

Facilities illustrate how innovative financing mechanisms can help address funding gaps by supporting early-stage and high-risk projects that private investors usually avoid. While their direct mobilisation of private capital remains moderate, they contribute indirectly by reducing risks, building project pipelines, and offering technical assistance. They also influence collaboration by aligning multiple donors and raising the profile of underfunded issues, though their effect on local capital markets is limited. Significantly, as most resources are grants, facilities do not undermine debt sustainability. Taken together, these features show that facilities can enhance the effectiveness of humanitarian and development interventions, provided that their design balances financial rigour with strategic objectives.

3.3.3 Endowments

Endowments represent a distinctive model aimed at ensuring long-term financial stability. These mechanisms rely on pre-donated resources whose capital is preserved and invested, with only the returns being used to finance activities. This makes them particularly relevant in sectors where predictability and temporal stability are essential. To date, their application has been more visible in

environmental conservation and the management of global public goods than in humanitarian action, even though their potential to provide stable, predictable funding to social or humanitarian sectors has often been noted (Koning et al., 2020).

Illustrative examples include the Prespa-Ohrid Nature Trust (PONT), established to guarantee continuous support for biodiversity protection in the Balkans; the Caucasus Nature Fund (CNF), which finances the management of protected areas in the Caucasus; and the Blue Action Fund[5], which supports marine and coastal conservation initiatives. The impact of endowments on mobilising private capital is low, as they rely on pre-donated capital invested in financial markets. Their contribution to strengthening local markets is indirect, as investments are often made internationally, although the returns may support local organisations. Regarding debt sustainability, their impact is high, since they do not generate additional debt and enhance long-term financial resilience.

Endowments show that innovative financing can address funding gaps not by mobilising new private capital, but by providing predictable, sustainable resources that strengthen the long-term effectiveness of interventions. They represent a distinct category of mechanisms, based on the preservation of capital and the use of investment returns, and provide stability where other instruments focus on short-term fund mobilisation. Their governance structures generally support transparency and accountability, as endowments require clear rules on capital preservation and oversight mechanisms to ensure alignment with their founding objectives. Donors often maintain supervisory roles through board representation or approval rights over structural changes, thereby strengthening accountability and reporting requirements (Koning et al., 2020).

3.3.4 Structured Funds

Structured funds are layered investment vehicles designed to mobilise private capital by reshaping the risk–return balance of investments that would otherwise remain unattractive. They are particularly relevant in SDG-related sectors that are often considered too risky for commercial investors but are financially viable if donor contributions absorb part of the risk. By combining concessional donor funding with commercial capital, structured funds redistribute risks and create opportunities for private investors in fragile or underserved markets (Koning et al., 2020).

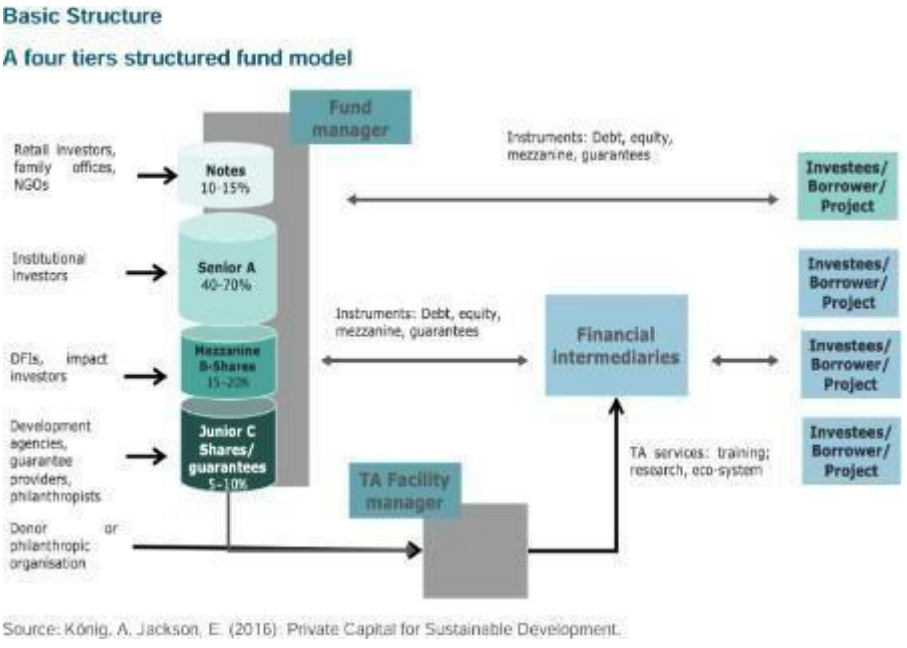
Their added value lies not only in financing but also in introducing new financial products, such as local currency debt, green bonds, or insurance mechanisms, that expand market access and help build local financial ecosystems. Structured funds also strengthen collaboration by pooling diverse

[5] **Blue Action Fund** is a conservation trust fund dedicated to supporting marine protected areas and coastal waters of Africa, Latin America and Asia.

stakeholders under a standardized governance structure and aligning donor, development finance institution (DFI), and private sector objectives. At the same time, this diversity of interests requires careful governance: commercial debt investors tend to minimise risks, equity investors pursue upside potential, and donors emphasise development outcomes. Clear ex-ante agreements and transparent shareholder structures are therefore critical (Koning et al., 2020).

Koning et al. (2020) further emphasize the importance of an explicit donor exit strategy once the fund demonstrates viability without concessional capital, to ensure long-term sustainability and avoid dependency on donors. They also warn of the risks of misusing concessionality, for example, by subsidising investments that would have materialised anyway, which raises questions of accountability and effectiveness.

Figure 8.1 summarizes this layered structure, illustrating how different categories of investors assume varying levels of risk and return, how fund managers channel capital directly or through intermediaries, and how technical assistance facilities reinforce impact through capacity-building and operational support.



Note: From the innovative development finance toolbox (Koning et al., 2020)

Figure 3-1– Structure Fund

An illustrative example is the SANAD Fund for MSME[6], which operates in the Middle East and North Africa. Designed as a structured fund with layered risk tranches, it channels concessional donor resources alongside DFI and private investment to expand access to finance for micro, small, and

[6] **SANAD Fund for MSME**: An impact investment fund based in Luxembourg that provides medium- and long-term debt and equity financing to partner financial institutions in the Middle East, North Africa and Sub-Saharan Africa. Its aim is to reduce the financing gap for micro, small and medium enterprises (MSMEs), with a special focus on young, female and rural entrepreneurs, and to foster job creation, inclusive financial systems and resilient local economies

innovative enterprises. SANAD shows how structured funds can be adapted to contexts affected by instability and crisis, bridging the gap between development finance and humanitarian concerns (Koning et al., 2020).

Structured funds, therefore, illustrate how innovative financing mechanisms can help address funding gaps and expand the range of tools available in fragile contexts. They are primarily applied in a long-term development logic, where concessional capital is used to make entire sectors investable and to build financial ecosystems over time. Their potential to mobilise resources at scale and foster collaboration is clear. However, their complexity, high transaction costs, and reliance on long time horizons limit their direct use in rapid humanitarian response. To remain relevant in crisis settings, structured funds would need to be carefully adapted so that developmental objectives and humanitarian principles can reinforce rather than compete with each other.

3.3.5 Flat (Unstructured) Funds

Flat funds, also known as unstructured funds, are characterised by the absence of hierarchy among investors, as all participate under identical risk-return conditions. This simple structure facilitates management but makes them less attractive to large institutional investors, who usually require more sophisticated risk-mitigation mechanisms. Despite this limitation, flat funds are frequently used in private equity and venture capital in emerging markets, playing an important role in financing SMEs and start-ups in strategic sectors.

Significant examples include the Partech Africa Fund, dedicated to financing African tech start-ups; AfricInvest FIVE[7], which invests in African SMEs in areas such as health and education, and Omnivore[8] in India, specialised in sustainable agritech[9] ventures. The impact of these funds on mobilising private capital is moderate, depending mainly on the quality of investment selection and the management team's expertise. Their contribution to strengthening local markets can be significant, particularly when focused on strategic sectors, but varies depending on managerial capacity. As for debt sustainability, the impact tends to be neutral, as they do not directly generate debt; outcomes depend on how investments are structured and the risks assumed.

[7] **AfricInvest FIVE:** Financial Inclusion Vehicle is an *evergreen* investment vehicle launched in 2017, dedicated to advancing financial inclusion in Africa. It primarily invests in Tier II and Tier III financial institutions, fintechs, and other financial services companies across African markets, with the objective of expanding access to banking and financial services for underserved populations.

[8] **Omnivore**: An impact venture capital firm based in India, specialising exclusively in agritech and food-systems innovation. It invests in startups from seed to growth stage that aim to improve smallholder farmer profitability, enhance resilience, and catalyse climate-smart agriculture

[9] **AgriTech:** Agricultural technology, is the application of technology in agriculture to improve farming processes, field management, better sustainable solutions, and a faster food supply chain. The AgriTech startup sector refers to the companies developing solutions addressing existing challenges in the agriculture industry area.

Taken together, the Funds and Facilities cluster demonstrates not only diversity in design but also complementary contributions to the central challenges identified in this thesis. In terms of addressing funding gaps and enhancing effectiveness, facilities stand out for their role in early-stage preparation and risk absorption; structured funds for their capacity to leverage private capital at scale; endowments for providing predictable, long-term resources; and flat funds for supporting entrepreneurial ecosystems. Each mechanism, therefore, offers a different pathway to expanding the resource base for fragile and crisis-affected contexts.

Regarding the types of innovative mechanisms employed, the comparison shows a clear spectrum between instruments that primarily mobilise new capital (structured and flat funds) and those that prioritise stability and coordination (facilities and endowments). This diversity is itself an asset, since it allows financing approaches to be adapted to context-specific needs.

In terms of transparency and accountability, the governance structures of funds and facilities vary in robustness but share the challenge of balancing diverse interests. Endowments tend to perform well due to strict rules on capital preservation and reporting; structured funds require careful monitoring to ensure concessionality is not misused; facilities enhance transparency by aligning multiple donors around common objectives; and flat funds depend heavily on the credibility and expertise of fund managers.

Finally, when it comes to collaboration and coordination among stakeholders, all modalities provide a platform: facilities align donor priorities, structured funds bring together donors, DFIs and private investors in layered structures, endowments enable long-term donor engagement in strategic themes, and flat funds support partnerships with entrepreneurs and venture investors. Together, they illustrate how innovative financing not only mobilises resources but also fosters more systemic forms of cooperation.

Overall, Funds and Facilities show that innovative financing is not a single solution but a portfolio of complementary mechanisms that address different aspects of the humanitarian and development financing challenge. Their combined use has the potential to close funding gaps, safeguard accountability, and build more resilient financial ecosystems capable of responding to both developmental and humanitarian needs.

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3.3.6 Results- / Outcomes-Based Finance

According to both the Innovative Development Finance Toolbox (König et al., 2020) and Humanitarian Impact Finance: Instruments & Approaches (Farber et al., 2024), the Results-Based Finance (RBF) and the Outcomes-Based Finance (OBF) represent a family of innovative mechanisms designed to align financing with the achievement of concrete results.

> "Outcomes-Based Finance (OBF) mechanisms involve one or several outcomes payor(s) making payments conditional on the achievement of pre-agreed, measurable outcomes, thus monetizing the impact generated" (König et al., 2020, p. 53)

> "Outcomes-based finance (also referred to as pay-for-success) is a public-private partnership tool that combines performance-based contracting and private/public financing. By joining the two, governments are better able to align the procurement of, and payment for, services with the achievement of targeted social, environmental, or humanitarian outcomes." (Farber et al., 2024, p. 21).

> "Results-Based Finance (RBF) mechanisms are defined as financing arrangements where payments […] are contingent upon the achievement of pre-defined and/or verified results (i.e. outputs, outcome or impact) rather than payments for activities or inputs." (König et al., 2020, p. 46)

Unlike traditional models, in which resources are disbursed to fund activities, these approaches disburse funds only upon verification of predefined outputs or outcomes. The underlying principle is to shift risk from the financier to the implementer, thereby creating incentives for greater efficiency and effectiveness in interventions (Farber et al., 2024; König et al., 2020).).

In the Innovative Development Finance Toolbox, König et al. (2020) classify these instruments as part of the "Results- and Policy-Based Finance" family, which encompasses three sub-categories: Results-Based Finance, Outcomes-Based Finance and Policy-Based Finance. Within this classification, RBF refers to models in which payments are tied to achieving specific targets, such as the number of vaccines administered, the enrolment of children in schools, or the installation of solar panels. OBF is understood as a broader concept, focusing not only on measurable outputs but also on more complex, long-term social and economic impacts, such as reductions in mortality rates, improvements in community well-being, and the socio-economic integration of vulnerable populations. Policy-Based Finance appears as a complementary model in which disbursements are conditioned on previously agreed policy reforms, embedding results-based instruments within a broader structural transformation horizon. In practical terms, this means external financing is released only after governments implement specific reforms. A concrete example is the €300 million policy-based loan for the Tunisian water sector, led by the World Bank and co-financed by KfW10. Disbursements were contingent upon the adoption of a new Water Law and tariff reforms, thereby linking international support directly to national policy change and long-term sectoral sustainability (König et al., 2020).

In the humanitarian sector, Farber et al. (2024) classify Outcomes-Based Finance as a stand-alone approach, highlighting its relevance in protracted crises. They present it as a mechanism that combines performance-based contracting with private financing, where payments are made only if the agreed outcomes are achieved and independently verified. This model has been operationalised through sub-approaches such as Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs). In both cases, private investors, typically impact investors, foundations, or socially oriented financial institutions, provide the upfront capital that allows service providers, usually NGOs or social enterprises, to deliver the intervention. If the agreed results are met, the investors are reimbursed by the outcome funder with an additional success premium. The distinction lies in who serves as the outcome funder: in SIBs,

[10] KfW is one of the world's leading development banks. Since 1948, it has operated on behalf of the German Federal Government and the federal states to improve economic, social, and environmental living conditions worldwide. In 2024 alone, KfW provided €112.8 billion in financing for this purpose. (KfW, n.d., para. 1)

it is usually a domestic government authority, while in DIBs, it is generally a donor agency, development bank, or philanthropic foundation. These contracts typically involve additional actors such as intermediaries, including consulting firms, foundations, or local coordination entities, that help design the contract and manage implementation, and an independent validator that certifies whether results have been achieved. Figure X (Outcome-based finance scheme) further clarifies this architecture by illustrating the flows of investment, conditional pledges, and payments by results among social investors, intermediaries, outcome funders, service providers, and validators, ultimately showing how impact is transferred to beneficiaries.

Another variation identified are Social Impact Incentives (SIINCs), which establish a more direct bilateral relationship between an outcome funder, commonly a foundation or a development agency, and a social enterprise. In this model, the enterprise receives bonus payments for demonstrating positive, verifiable impacts, for example, serving low-income clients or reaching marginalized populations. These incentive payments strengthen the enterprise's business model, indirectly benefiting its investors by making the company more profitable and sustainable (Farber et al., 2024). Farber et al. (2024) underline that SIINCs strengthen social enterprises' business models by providing premium payments when verifiable impacts are achieved, thereby increasing their profitability and making them more attractive to private investors. This reduces investor risk, since payments are triggered only after results are independently verified, while simultaneously enhancing the potential for financial returns alongside measurable social impact. For outcome funders, the appeal of these mechanisms lies in paying only for verified results, thereby increasing efficiency and accountability, while simultaneously leveraging private investment to amplify the social impact achieved with the same volume of resources (Farber et al., 2024).

The expected benefits of these mechanisms, both in the perspective of König et al. (2020) and Farber et al. (2024), include greater efficiency in programme implementation, stronger accountability through robust monitoring and evaluation systems, and, in some cases, the mobilisation of private capital interested in combining financial and social returns. At the same time, both frameworks highlight limitations, such as the difficulty of defining appropriate metrics in humanitarian contexts, where outcomes are complex and multidimensional. The structuring of contracts, the need for independent verification and the transaction costs involved can be significant, creating barriers to scalability (König et al., 2020).

From a comparative perspective, König et al. (2020) systematise RBF, OBF, and Policy-Based Finance within a broader typology, emphasising their pedagogical role and their link to the Addis Ababa Action Agenda’s three areas of impact: mobilisation of private capital, strengthening of local markets,

and debt sustainability. Farber et al. (2024), by contrast, isolate OBF as a distinct approach, stressing its disruptive potential for humanitarian financing and illustrating its applicability through concrete examples such as SIBs, DIBs and SIINC.

- Results-Based Finance

Results-Based Finance has been used in practice across several development sectors. For instance, the Innovative Development Finance Toolbox cites Conditional Cash Transfers (CCTs) as a well-established form of RBF, in which households receive payments only if they meet specific conditions, such as enrolling children in school or attending health check-ups. Another concrete example is the Advance Market Commitment (AMC) for vaccines, pioneered by GAVI, in which donors committed funds to guarantee the price of future vaccines against pneumococcal disease. Manufacturers were incentivised to invest in production capacity, knowing that payments would be made only when effective vaccines were delivered (König et al., 2020).

Farber et al. (2024) highlight the use of performance-based contracts in humanitarian contexts, for example in refugee integration programmes, where service providers are remunerated according to the number of beneficiaries who successfully find employment or housing within a defined period. These models show how RBF can shift the focus from funding activities to rewarding tangible improvements in the lives of affected populations (Farber et al., 2024).

- Outcomes-Based Finance

In development finance, Outcomes-Based Finance has been applied through Development Impact Bonds (DIBs), where philanthropic or private investors provide initial capital for projects and are repaid by donors or governments only if independently verified outcomes are achieved. A well-known example is the Educate Girls DIB in Rajasthan, India, launched in 2015, which aimed to improve enrolment and learning outcomes for girls. Investors were repaid only if the set targets were met, which indeed happened, demonstrating the feasibility of linking finance directly to social impact (König et al., 2020).

Farber et al. (2024) reinforce the humanitarian potential of OBF by referencing pilot projects in health and education for displaced populations. For example, SIBs and DIBs have been used to finance skills training for refugees, where returns to investors depended on employment outcomes. Similarly, the ICRC Humanitarian Impact Bond, launched in 2017 to fund rehabilitation centres for people with disabilities in Africa, is cited as a landmark OBF application: investors provided upfront financing. They were reimbursed by outcome funders based on verified operational performance of the centres (Farber et al., 2024).

- Policy-Based Finance

Policy-Based Finance, as described by König et al. (2020), links disbursements to structural policy reforms. One example is the use of Policy-Based Loans (PBLs) by multilateral development banks, where governments receive concessional financing contingent on implementing agreed policy changes, such as reforms in the energy sector or fiscal governance. Another application are Policy- Based Guarantees (PBGs), in which donor-backed guarantees are provided to support sovereign borrowing, conditional on reform implementation. These mechanisms aim not only to deliver short- term outputs but also to embed reforms that strengthen local capital markets and promote debt sustainability (König et al., 2020).

Farber et al. (2024) do not treat Policy-Based Finance as a separate category but acknowledge that conditioning finance on policy reforms can also be relevant in fragile states emerging from crises. For example, in post-conflict recovery contexts, disbursements linked to reforms in governance or financial regulation can provide predictability and create incentives for governments to adopt measures that facilitate sustainable investment flows (Farber et al., 2024).

3.3.7 Risk Participation & Market Instruments

According to the Innovative Development Finance Toolbox (König et al., 2020) and Humanitarian Impact Finance: Instruments & Approaches (Farber et al., 2024), risk participation mechanisms play a central role in innovative finance by reducing, transferring, or sharing risks between public and private stakeholders. These instruments make investment in fragile or humanitarian contexts more attractive, particularly for private actors that would not otherwise engage due to high levels of uncertainty. While König et al. (2020) treat these mechanisms as a coherent family under “Risk Participation & Market Instruments”, including Guarantees, Bonds, Insurance, Local Currency Finance and Securitisation, Farber et al. (2024) highlight several of these as stand-alone approaches, particularly Insurance, which they elevate to a distinct category. Both frameworks emphasise that the innovation lies not in the invention of new tools, but in their structuring and combination to de-risk investment and channel additional resources into development and humanitarian action.

- Guarantees

König et al. (2020) describe guarantees as contractual commitments to cover potential losses in the event of default, thereby lowering risk for investors and reducing borrowing costs for recipients. Guarantees can take the form of partial credit guarantees or partial risk guarantees, with applications

in infrastructure, social sectors, and sovereign lending. The Toolbox highlights the role of multilateral development banks in providing guarantees that enable countries with weaker credit ratings to access capital at lower costs (König et al., 2020).

Farber et al. (2024) identify guarantees as a key enabler in humanitarian finance, often embedded within blended structures. They note the example of the European Fund for Sustainable Development (EFSD) Guarantee, which mobilises private investment for fragile states by absorbing part of the risk that would otherwise deter investors. By underwriting early-stage risk, guarantees make it possible to attract institutional investors to areas such as refugee livelihoods or basic services provision (Farber et al., 2024).

- Bonds

In the typology of König et al. (2020), bonds are debt instruments issued to raise funds, which can be structured in innovative ways to align with development goals. Examples include green bonds, diaspora bonds or social bonds, each targeting specific investor groups. The Toolbox cites the World Bank Green Bonds, which mobilise capital for climate-related projects while offering stable returns to investors (König et al., 2020).

Farber et al. (2024) emphasise the growing relevance of humanitarian bonds. The most prominent example is the ICRC Humanitarian Impact Bond launched in 2017, which raised CHF 26 million to finance physical rehabilitation centres in Africa. In this model, private investors provided upfront capital, and outcome funders reimbursed them with interest based on independently verified results. This case demonstrates how bonds can be adapted to fragile contexts, linking repayment to measurable humanitarian outcomes (Farber et al., 2024).

- Insurance

While König et al. (2020) classify insurance as a sub-instrument under risk participation, Farber et al. (2024) elevate it to an independent approach due to its critical importance in fragile settings. Insurance works by pooling risks and paying out when specific events occur, thereby providing liquidity and resilience in the face of shocks.

The Toolbox references catastrophe bonds and sovereign risk pools as innovations that allow countries to transfer disaster risks to international capital markets. One example is the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which provides parametric insurance against hurricanes and earthquakes, ensuring rapid payouts to affected governments (König et al., 2020).

Farber et al. (2024) highlight humanitarian applications such as the African Risk Capacity (ARC), which helps African Union member states access insurance against droughts and other climate-related

disasters. Recent developments show the expansion of ARC products beyond drought into cyclones and floods, marking a significant step in climate resilience financing.

The ARC Ltd. Flood Risk Insurance Product illustrates this evolution. Launched in 2023 in partnership with JBA Risk Management, it was the first flood parametric insurance product for Africa, rolled out initially in Madagascar, Mozambique, Malawi, Côte d'Ivoire, Ghana and Togo. The model provides daily impact assessments, allowing governments to estimate economic losses and population exposure based on rainfall data and predefined thresholds. When thresholds are exceeded, payouts are triggered automatically, ensuring rapid and predictable disbursement of funds (ARC, 2023).

In parallel, the ARC Replica Programme allows humanitarian agencies such as the WFP, UNHCR, Save the Children and the Start Network to purchase matching coverage alongside governments. This expands protection to vulnerable communities while strengthening national disaster response systems. In Mali, ARC payouts enabled WFP to deliver cash and food assistance to hundreds of thousands of people between March and May 2023, far more quickly than through traditional donor appeals. In Somalia, Replica payouts provided rapid financing during the farming season, allowing aid organisations to respond within expected timelines (ARC, 2023).

These cases show how insurance in humanitarian contexts is not limited to risk transfer, but also contributes to structural resilience. By integrating with national disaster risk management frameworks and enabling pre-arranged financing, mechanisms like ARC strengthen both government preparedness and humanitarian operations, aligning with the broader shift from reactive aid to proactive risk management (König et al., 2020; Farber et al., 2024; ARC, 2023).

- Local Currency Finance

König et al. (2020) argue that local-currency financing reduces exposure to exchange-rate volatility, a significant source of financial risk in developing countries. Instruments such as currency swaps or local bond markets are cited as ways to strengthen domestic financial systems. An example is the Currency Exchange Fund (TCX), which offers hedging products to development finance institutions, allowing them to lend in local currencies without taking on foreign-exchange risk (König et al., 2020).

Farber et al. (2024) also discuss the importance of local currency mechanisms within blended finance structures. In humanitarian contexts, the use of local currency lending can reduce vulnerabilities for microfinance institutions and small enterprises serving displaced populations, as it avoids currency mismatches that would otherwise destabilise fragile economies (Farber et al., 2024).

- Securitisation

König et al. (2020) present securitisation as a mechanism for pooling and repackaging assets into tradable securities, thereby attracting investors who would not otherwise engage directly. For example, portfolios of microfinance loans can be securitised and sold to institutional investors, providing liquidity to the originators and scaling up lending capacity. The Toolbox cites microfinance loan securitizations as concrete examples, showing how this instrument mobilises private capital while diversifying risk (König et al., 2020).

Farber et al. (2024) note that while securitisation has not yet been widely applied in humanitarian contexts, it has the potential to scale solutions such as pay-as-you-go solar energy for refugees or health microinsurance. By bundling these small-scale assets into larger portfolios, securitisation could make them attractive to institutional investors, thereby bridging the gap between humanitarian needs and capital market expectations (Farber et al., 2024).

3.4 Summary of Innovative Financing Approaches

Overall, Chapter 8 shows that approaches like blended finance and structured funds can enhance predictability, mobilize private capital, and foster resilience, particularly in protracted crises. Results-based finance introduces performance incentives but has stayed concentrated among well-resourced organizations because of high transaction costs. Risk-sharing instruments enhance liquidity and preparedness but face difficulties in fragile contexts where data, governance, and regulatory conditions are weak. These insights highlight that innovation is as much about organisations and systems as about technology and depends on enabling environments rather than instrument novelty alone.

4 Tools and Approaches linkage to innovation

Chapter 4's discussion of the nature and dimensions of humanitarian innovation provides an important lens through which to interpret the findings of this dissertation. The criteria of novelty, effectiveness, sustainability, diffusion, and collaboration identified in that chapter are not merely conceptual, but directly relevant to the analysis of financing mechanisms. When the humanitarian financing landscape was mapped, traditional instruments emerged as dominant, yet they often struggle to deliver sustainability or to foster collaboration and diffusion beyond established international actors. Their effectiveness is apparent in mobilising short-term grants, but they fall short in addressing structural funding gaps and in supporting long-term resilience. The examination of emerging mechanisms revealed greater novelty and some potential for enhanced efficiency; however, significant barriers of accessibility remain, particularly for local organisations, which undermines both inclusiveness and scalability. Viewed through this innovation lens, the humanitarian financing system appears fragmented: promising developments exist, but they are not yet sufficient to transform the system into one that consistently meets the criteria of humanitarian innovation.

This observation resonates with the broader literature on humanitarian innovation, which stresses that innovation is not only about products or outputs, but about systems, processes, and relationships (Ramalingam et al., 2009). As highlighted in Chapter 6, innovation cannot be reduced to isolated interventions, it must be understood as part of a wider innovation system involving diverse actors, institutions, contextual factors, and performance outcomes. Financing mechanisms are embedded in this system; they shape and are shaped by institutional logics, donor priorities, market incentives, and the operational capacity of humanitarian organisations. Thus, the shortcomings of traditional instruments, such as their inability to foster sustainability or inclusivity, can be interpreted not only as technical limitations but also as systemic failures within the humanitarian innovation system.

Taken together, these insights highlight that the humanitarian funding gap is not solely a matter of insufficient resources, but also of how financing mechanisms are conceptualised and applied. In line with ALNAP's early work and subsequent refinements by Obrecht & Warner (2016), innovation must be evaluated not simply by its novelty, but also by its capacity to achieve adoption, generate learning, and improve solutions across multiple levels. The same applies to humanitarian finance: innovation in

this domain should be assessed by its ability to advance sustainability, equity, and collaboration, dimensions that remain unevenly realised across the current financing landscape.

In this sense, humanitarian finance is both a test case and a driver of systemic innovation. Its instruments are not only means of mobilising resources, but also levers for reshaping relationships among actors, enabling new forms of collaboration, and fostering diffusion of practices beyond traditional boundaries. Emerging mechanisms such as blended finance, impact bonds, or insurance schemes illustrate how financial innovation can catalyse broader changes in the system. However, they also reveal persistent challenges of scalability and inclusivity. Bridging the conceptual discussion of innovation with the empirical realities of humanitarian finance, therefore, underscores the central argument of this dissertation: without addressing both the technical design of instruments and their systemic embedding, innovation in humanitarian finance will remain partial and fragmented rather than transformative.

4.1 MCDA Tool

The application of MCDA in this thesis allows for the development of a structured evaluation framework that matches financing instruments to the characteristics and needs of different organizations. The model does not attempt to prescribe a single “best” option in absolute terms, but rather to guide actors in understanding which mechanisms are more or less aligned with their specific profiles and priorities.

This chapter, therefore, justifies the MCDA-based evaluation framework. It explains the rationale for selecting specific evaluation criteria, the choice of instruments, the design of the scoring scale, and the attribution of weights.

4.1.1 Criteria Selection

The selection of the six criteria (organization type, risk tolerance, primary need, M&E capacity, revenues/cash flow, and time horizon) was based on patterns that repeatedly emerged throughout the literature review.

As I analysed different financing mechanisms and the barriers faced by humanitarian actors, this selection of the six criteria (organization type, risk tolerance, primary need, M&E capacity, revenues/cash flow, and time horizon) was based on patterns that repeatedly emerged, consistently appearing as the main factors shaping access and suitability.

“Organization type” was included because funding opportunities and eligibility vary widely between UN agencies, INGOs, and local NGOs, reflecting their different levels of capacity and access to capital (ICVA, 2025).

“Risk tolerance (or repayment capacity)” proved essential, as several instruments, such as

concessional loans, equity, or blended finance, are only viable for organizations able to assume financial risk (Farber et al., 2024).

The “primary need” criterion emerged from the observation that each financing decision starts with the type of problem to be solved: emergency response, resilience building, or long-term investment.

“M&E capacity” was identified as a key enabling factor because many innovative mechanisms, such as results- or outcomes-based finance, depend on robust monitoring systems and reliable data (König et al., 2020).

“Revenues and cash flow” were included since several mechanisms require some level of financial sustainability or co-financing ability (ICVA, 2025).

Finally, “time horizon” captures whether the financing need is short-term and urgent or linked to longer-term programming, which determines the suitability of different instruments.

In short, these six criteria translate the main structural and operational determinants identified in the humanitarian finance literature into a practical decision-making framework. They aim to make the tool both evidence-based and usable by organizations with different profiles and capacities.

4.1.2 Choice of Instruments

The instruments assessed in this model were selected to reflect both the established mechanisms of humanitarian finance and the more recent developments in Humanitarian Impact Finance. The selection covers grants and pooled funds; concessional loans; equity and debt instruments; guarantees and insurance; as well as hybrid mechanisms such as blended finance, bonds, or securitization.

The guiding principle was to ensure breadth, practical relevance, and applicability. Breadth was achieved by including instruments across the non-repayable, repayable, guarantee/insurance, and hybrid categories. Practical relevance was addressed by prioritising mechanisms that appear consistently in institutional reports (ODI, ICVA, OCHA, OECD) and have been tested in humanitarian settings. Applicability was safeguarded by excluding purely commercial instruments, such as traditional private equity, which are of little relevance to humanitarian actors.

This careful balance ensures that the model remains grounded in yet selective enough to focus on the instruments: broad enough to cover the diversity of financing options, but selective enough to focus on those instruments that humanitarian organizations are most likely to encounter.

4.1.3 Scoring Scale

The translation of these criteria into an operational model required the adoption of a scoring scale. In

this thesis, a four-point scale (0–3) was chosen to represent the degree of alignment between organizational profiles and the requirements of each instrument. This scale allows for differentiation between no alignment, weak, moderate, and strong alignment. The decision to use a simplified scale rather than a more granular one (e.g., 1–10) was deliberate. Belton and Stewart (2002) emphasize that the strength of MCDA lies less in mathematical sophistication and more in the clarity and usability of the framework. A short scale provides sufficient differentiation to support decision-making, while remaining intuitive and comprehensible for NGOs with limited technical expertise. It avoids both the false precision of extended numerical ranges and the excessive simplification of binary classifications.

4.1.4 Weighting

In addition to scoring, the model required assigning weights to reflect the relative importance of each criterion. Following Belton and Stewart's (2002) guidance, weights were set as relative priorities rather than absolute measures, ensuring that no single criterion would dominate disproportionately.

The primary need of the organization was assigned the highest weight (1.4), as it is the most direct determinant of instrument suitability. Risk tolerance was assigned the second-highest weight (1.3), as the capacity to absorb financial risk is decisive for accessing repayable or hybrid mechanisms (Farber et al., 2024). Monitoring and evaluation capacity and revenues/cash flow were weighted at 1.2, functioning as enabling conditions. Finally, organization type and time horizon were each assigned a weight of 1.0, providing essential contextual information without overwhelming the decision process.

This narrow weighting range (1.0–1.4) preserves balance while making explicit the relative priorities embedded in the decision framework.

4.1.5 Worked Example

To illustrate the methodology, consider the following organizational profile:

- Local NGO
- Low risk tolerance
- Primary need: rapid response
- Basic M&E capacity
- No revenues or cash flow
- Financing horizon: < 12 months

The six predefined criteria (organization type, risk tolerance, primary need, M&E capacity, revenues/cash flow, and time horizon) are each scored on a scale from 0 (no alignment) to 3 (strong alignment), reflecting the degree to which the NGO's profile matches the typical requirements of each financing mechanism. Each criterion also carries a weight, predetermined during the tool's design, that reflects its relative importance in the decision process (ranging from 1.0 to 1.4 in this prototype). The logic is straightforward: the raw score for each criterion is multiplied by its weight to produce a weighted score. These weighted contributions are then summed across all six criteria to produce the

final score for each financing mechanism. This ensures that every recommendation can be directly traced back to explicit rules (the scoring logic) and transparent priorities (the weights).

The following table illustrates the analysis for the organizational profile described above. To simplify the example's reading and interpretation, only three mechanisms are shown here: traditional grants, concessional loans, and parametric insurance. However, the same logic can be applied to all financing mechanisms included in the tool, as shown in the accompanying Excel prototype. To facilitate a comprehensive understanding, some cells have been highlighted in color to illustrate the reasoning process. For instance, in the case of the weighted score for traditional grants, the final value is obtained by multiplying the weight assigned to the criterion “organization type” (1, marked in orange) by the raw alignment score assigned to this mechanism (2, marked in green). This procedure is repeated for each criterion, and the weighted scores are then summed to produce the final score for each financing option.

Table 4.1 - STEP 1, Example of how to measure weights

Criteria	Weight	Traditional Grant	Concessional Loan	Parametric Insurance	Traditional Grant (weighted)	Concessional Loan (weighted)	Parametric Insurance (weighted)
Organization type	1	2	1	1	= 2 x 1 = **2**	1	1
Risk tolerance	1.3	3	0	2	= 1.3 x 3 = **3.9**	0	2.6
Primary need	1.4	2	0	3	= 1.4 x 2 = **2.8**	0	4.2
M&E capacity	1.2	2	1	1	=1.2 x 2 = **2.4**	1.2	1.2
Revenues / cash flow	1.2	3	0	1	= 1.2 x 3 = **3,6**	0	1.2
Time horizon	1	2	0	3	=1 x 2 = **2**	0	3
Total					SUM = 16.7	SUM= 2.2	SUM= 13.2

4.1.6 How to use the tool?

This subsection describes the functioning of the Excel-based tool developed to support multi-criteria MCDA. The aim is to provide a clear and practical guide for users, illustrating how the tool can be applied step by step.

4.1.6.1 Step 1 – Data input (Inputs)

The first step is to complete the *Inputs* sheet, where the user specifies the main organisational and financial characteristics. Each row corresponds to a different criterion, while the drop-down menus in the “Value” column allow the user to select the option that best describes their situation. For instance, organisations can be classified by type (e.g., NGO, government, social enterprise), risk tolerance, primary need, monitoring and evaluation capacity, own revenues, and the financing time horizon. The notes column provides definitions and examples for each field, ensuring that the process is intuitive and consistent.

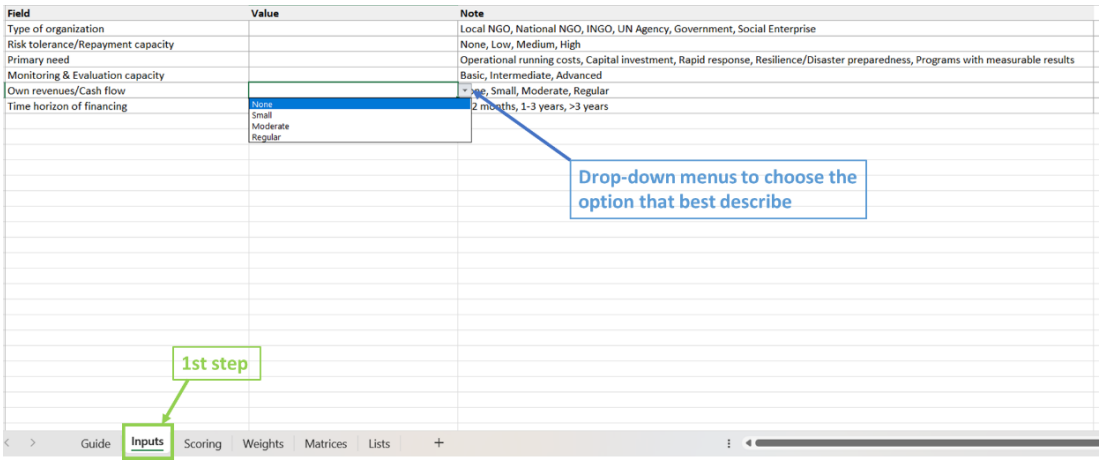


Figure 4.1– Step 2, Drop-down menu

4.1.6.2 Step 2 – Data input (Inputs)

On the Scoring sheet, the user evaluates each alternative against the predefined criteria. This step is central to the decision-making process, as it translates qualitative judgments into quantitative values that can later be aggregated and compared. Each alternative is assigned a performance score for every criterion, using a consistent scale. A score of **0** indicates *no alignment*, meaning the instrument is not suitable in that context. A score of **1** indicates partial alignment and limited suitability. A score of **2** represents *moderate alignment*, suggesting a reasonable fit. Finally, a score of **3** denotes *strong alignment*, indicating that the instrument is highly suitable for the given criterion.

In practice, the scoring process is informed by the compatibility matrices embedded in the tool. These matrices establish the degree of alignment between each financing instrument and the organisational or financial characteristics defined in the *Inputs* sheet. Each row corresponds to a specific financing instrument, while each column represents a possible criterion (for example, type of organisation, level of risk tolerance, or financing time horizon). The numerical value in each cell (ranging from 0 to 3) indicates the extent to which the instrument is suitable for that particular condition.

For instance, in the Type of organisation matrix, the columns display categories such as “Local NGO”, “National NGO”, “INGO”, “UN Agency”, “Government”, and “Social Enterprise”. A score of 3 under “Local NGO” for a traditional grant means that this instrument is highly appropriate for that organisational type. In contrast, a score of 1 under “Government” indicates only limited suitability. Similarly, in the Risk tolerance matrix, the columns range from “None” (0) to “High” (3), showing how each instrument performs at different levels of acceptable risk.

By structuring the evaluation in this way, the tool not only standardises score assignment but also enables the creation of scenarios. Depending on the values entered in the *Inputs* sheet, the

corresponding scores are automatically drawn from the matrix, ensuring consistency across alternatives and criteria.

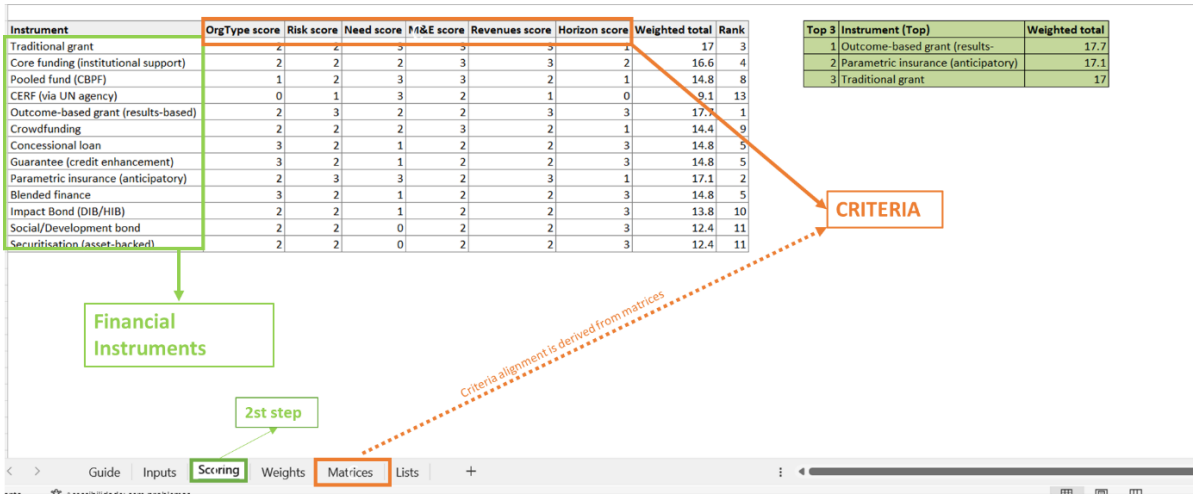


Figure 4.2– Step 3, Weighting of criteria (Weights)

The *Weights* sheet allows assigning relative importance to each predefined criterion. While the *Scoring* process quantifies the degree of alignment between financing instruments and criteria, the weighting process determines the relative weight of each criterion in the overall evaluation. In other words, weights transform a neutral evaluation matrix into a context-sensitive decision framework.

In this thesis, the weights were not chosen arbitrarily; instead, I defined them, drawing on insights from the literature and the sensitivity analysis conducted during the tool's design. The underlying rationale is that some factors are inherently more decisive than others. For instance, the *primary need* of an organisation was considered the most influential criterion, as it directly reflects the core motivation for seeking financing. Other criteria, such as risk tolerance or monitoring capacity, remain relevant but were assigned comparatively lower weights.

The weights are expressed on a relative scale from 1.0 to 1.4, where 1.0 indicates baseline importance and 1.4 indicates greater significance. This narrow range was deliberately selected to avoid excessive distortions in the results: it ensures that more important criteria exert greater influence while still preserving the contribution of less critical factors. In practice, this means the most important criterion can be at most 40% more influential than the least important, thereby maintaining proportionality and preventing dominance by a single factor.

It is important to emphasise that this scale is relative. The same results could be obtained by adopting a different numerical range (e.g., 10 to 14 or 100 to 140), as long as the proportional differences between the criteria are preserved. The 1.0–1.4 scale was adopted here simply because it facilitated the interpretation of results and enhanced the tool's readability, while remaining consistent with the principles of proportional weighting described in the literature.

This approach aligns with established practices. According to Belton and Stewart (2002), weights in multi-criteria analysis should capture the decision-maker's priorities while avoiding disproportionate effects on the outcome. Similarly, Vitoriano et al. (2011), in their application of MCDA to humanitarian decision-making after the Haiti earthquake, normalised weights across criteria to reflect their relative importance, assigning, for example, *effectiveness* (0.4), *cost* (0.3), *implementation time* (0.2), and *feasibility* (0.1). The weighting system applied in this thesis follows the same principle: it prioritises the most critical criteria while ensuring that all criteria remain part of the decision-making process.

4.1.6.3 Step 4– Weighted Score – TOP 3

Finally, the *Matrices* sheet consolidates the information from the previous steps and provides an overview of the aggregated results. At this stage, the individual performance scores obtained in the *Scoring* sheet are combined with the relative importance of each criterion defined in the *Weights* sheet. The tool applies a weighted sum, where each score is multiplied by the corresponding criterion weight and then added across all criteria. This procedure ensures that the final value for each financing instrument reflects both its degree of alignment with organisational characteristics and the priorities assigned to the criteria.

In practice, this means that an instrument that performs moderately well across most criteria, but very firmly on the most heavily weighted ones, will achieve a higher final score than an instrument that scores uniformly but only on criteria of lesser importance. Conversely, if an instrument shows misalignment on critical criteria, its final score will remain low regardless of performance on less influential factors.

The *Matrices* sheet displays these aggregated results in a comparative format, enabling a transparent evaluation of all alternatives. This enables the user to identify which financing instruments are globally most suitable under the selected scenario. Beyond ranking, the matrix format also facilitates sensitivity analysis: users can adjust weights or reconsider input values and directly observe how the ranking of alternatives changes. This feature highlights the dynamic nature of decision-making and demonstrates how variations in organizational priorities can alter outcomes.

4.2 Tool scope and limitations

The tool developed in this thesis was designed to provide a clear, simplified overview of the financing options available to humanitarian organizations. Its scope is primarily exploratory: it aims to support organizations in identifying financing mechanisms that are often unknown or overlooked, and to

facilitate a structured comparison of options to determine which are best aligned with their profile and needs.

Several features highlight its current utility. Most fundamentally, the tool enables humanitarian organizations to become aware of financing mechanisms they might otherwise overlook or not even know exist. Given the density of the topic and the amount of research required to obtain even a basic overview, the tool functions as a valuable starting point by mapping out the available options. Beyond this, it provides a structured basis for comparison, allowing organisations to evaluate alternatives systematically against explicit criteria rather than relying on individual perceptions or fragmented knowledge. It promotes transparency by making trade-offs and assumptions visible, thereby supporting strategic reflection even if it does not provide definitive answers. It was intentionally designed for accessibility so that organizations with limited technical capacity can use it intuitively. It also offers speed, enabling a rapid initial analysis of financing options without requiring significant time or resources. Importantly, the tool is flexible, allowing users to adjust the relative importance of criteria or even reconsider the applicability of financing instruments in light of their organizational realities. Together, these characteristics make the tool a practical entry point into the complex and often opaque landscape of humanitarian financing.

At the same time, it is important to acknowledge its limitations. The framework inevitably simplifies reality, as the scoring and weighting system reduces multidimensional and context-specific factors into a structured matrix. The model also relies on the existing literature, which in this field remains limited and is often supplemented by grey sources, increasing the risk of gaps or inconsistencies. The criteria and weights are normative, reflecting my interpretation of priorities informed by the literature, but not yet validated through participatory processes with humanitarian actors. The tool is also static in its current form: it does not automatically integrate new financing opportunities or adapt dynamically to changing contexts. Furthermore, accessibility itself may be a limitation: while designed for simplicity, effective use of the tool still requires a minimum level of technical capacity to interpret results. This raises the question of how local NGOs, often with fewer resources and staff, could be best supported to access and apply the tool in practice. Without complementary capacity-building or tailored guidance, the tool's benefits might not fully reach the actors who stand to gain the most. Finally, the tool does not yet capture all relevant dimensions, such as political dynamics or locally specific financing arrangements, and it was conceived for individual rather than collaborative use.

Future work could expand this tool's functionality to provide more tailored guidance for humanitarian organizations. For instance, the model could be enriched with features that suggest relevant donor agencies or financing platforms, or link to complementary sub-tools that assess organizational practices such as monitoring and evaluation, risk tolerance, or repayment capacity.

Beyond individual use, the tool could also evolve into a collaborative platform, serving as a network where different stakeholders are connected, exchange experiences, and support each other in navigating financing challenges. Such extensions would not only increase the accuracy of recommendations but also strengthen collaboration within the humanitarian ecosystem. While these enhancements fall beyond the scope of this dissertation due to time and resource constraints, they represent promising directions for further development, ensuring that the tool evolves from a conceptual framework into a more comprehensive support system for humanitarian financing.

Final Considerations

This dissertation set out to explore the dynamics of humanitarian financing, with a particular focus on how innovative mechanisms can help address structural funding gaps. The research pursued three main directions: to analyse the current landscape of humanitarian financing, its challenges, and opportunities; to examine emerging innovative financing mechanisms in comparison with traditional approaches; and to design and test a practical decision-support tool to guide humanitarian actors in identifying more suitable financial options.

It is also worth recalling the reflections from Chapter 6, which discussed humanitarian innovation in terms of novelty, effectiveness, sustainability, diffusion, and collaboration. These dimensions provided a conceptual anchor for the analysis and are echoed in the findings of this dissertation. They remind us that financial innovation in humanitarian action should not be assessed solely by its novelty, but also by the extent to which it advances sustainability, inclusiveness, and collaboration, principles that remain unevenly realised across the current financing landscape.

The exploration of the current landscape provided a comprehensive overview of the humanitarian financing system and its structural shortcomings. The analysis confirmed the predominance of traditional grant-based instruments while also highlighting systemic challenges, including incomplete reporting, inequitable access for local actors, and a persistent mismatch between needs and available resources. This included an overview of traditional funding sources in humanitarian interventions, examining their contributions, allocations, and trends over time. It also entailed an analysis of the mechanisms and modalities, both traditional and innovative, through which funding is channelled, assessing their effectiveness, strengths, and limitations. The results show that a broad range of innovative financing instruments is currently being deployed within the humanitarian sector, including blended finance, structured and flat funds, endowments, facilities, results- and outcomes-based funding instruments, guarantees, bonds, insurance schemes, and other risk-sharing tools. Their roles are very different: structured and flat funds mainly mobilize new capital to scale up the resource base, while endowments and facilities focus on longer-term stability and coordination, often aligning multiple donors behind common objectives. Results- and outcomes-based models tie payments to results delivered, generating performance incentives, while market-based instruments such as guarantees and insurance enable actors to absorb and transfer risk, with early examples including ARC and CCRIF. Securitization, while not as yet widely used, has the potential to scale asset portfolios such as micro-insurance or energy access and thus may be applicable in the future. Overall, this diversity

reflects not a single transformative solution but rather a portfolio of complementary mechanisms able to respond to diverse needs across crisis contexts.

In principle, many innovative mechanisms promote transparency and accountability through the embedding of clear reporting structures and performance-linked requirements. Endowments have stronger accountability through strict capital-preservation and reporting rules, while facilities enhance transparency through pooled governance and collective donor alignment. Results- and outcomes-based instruments similarly reinforce accountability through disbursement linked to verifiable outcomes. However, the actual contribution is varied. Fragmented reporting systems, such as FTS and IATI, continue to limit sector-wide transparency, especially on non-traditional and private flows; reporting inconsistencies also erode evidence-based decision-making and learning. Some mechanisms risk reinforcing power asymmetries, with highly technical structures favouring well-resourced INGOs at the expense of local organisations morally questionable dynamic given principles of equitable access. Overall, innovative mechanisms may help strengthen governance but will be most effective if incorporated into harmonized reporting frameworks with sufficient M&E capacity and more inclusive design; in their absence, their full contribution to ethical and accountable practice cannot be realized.

The many innovative financial instruments aimed at promoting collaboration do so by bringing together non-traditional actors, namely donors, DFIs, private investors, and humanitarian organisations, into shared structures. Facilities bring multiple donors together under common objectives, while structured funds unify public and private actors through the use of layered risk structures. Long-term engagement is allowed for around strategic themes via endowments, while flat funds encourage partnerships with entrepreneurs and venture investors. These models illustrate how financial innovation could catalyse system-level cooperation by aligning diverging priorities, as well as promoting knowledge exchange. Such gains in collaboration nonetheless remain uneven: smaller or local organisations often have neither the technical nor the financial capacity to engage meaningfully, and collaboration therefore often reproduces hierarchies rather than challenging them. The fragmentation of reporting and weak frameworks across the broader system also inhibit joint action. It is thus true that innovative financing can instigate coordination, but the extent to which it does so will always depend upon concerted efforts toward inclusiveness and the creation of shared technical capacities.

The development of a decision-support tool translated these insights into practice. By applying MCDA, the tool provides humanitarian organisations with a framework to compare financing options in a structured and transparent way. While the tool has limitations and requires further refinement, it already demonstrates utility in raising awareness of existing mechanisms, structuring comparisons, and supporting more informed decision-making. In this sense, it responds directly to the ambition of offering humanitarian actors practical support in navigating a complex financing landscape.

In relation to the guiding research questions, this thesis has shown that a wide variety of innovative financing mechanisms are currently being tested in the humanitarian sector, ranging from repayable instruments and hybrid models to market-based tools. These mechanisms can contribute to greater transparency and accountability, but their impact is uneven, and accessibility remains restricted, particularly for local NGOs. Financing instruments also influence collaboration and coordination, though often in ways that reflect existing power asymmetries; without deliberate efforts to ensure inclusiveness, innovation risks reinforcing rather than reducing inequalities.

Taken together, the findings suggest that innovative financing is not a panacea but rather a complementary set of tools whose value depends on context, accessibility, and integration with traditional funding models. Significantly, this research contributes both conceptually and practically: conceptually, by critically analysing the opportunities and limitations of humanitarian financing innovation; and practically, by designing a tool that, despite its constraints, can help organisations begin to orient themselves within this evolving landscape.

Future work should expand on these contributions by testing the tool with humanitarian practitioners, integrating it with complementary assessments such as risk, repayment capacity, and monitoring practices, and exploring its potential as a collaborative platform. Such developments would enhance both its accuracy and accessibility, ensuring that it not only reflects but also actively supports the pursuit of more equitable and effective humanitarian financing.

In sum, this dissertation illustrates how innovative financing has the potential to strengthen humanitarian action through the expansion of resources, enhancement of accountability, and stimulation of collaboration, but such a transformation is conditional. Accessibility remains constrained by structural inequalities, fragmented reporting, and uneven technical capacity, such that innovation risks reinforcing rather than expanding participation. The decision-support tool developed here represents an initial practical step toward informing choices within this complexity, but further refinement, testing, and integration with collaborative processes is needed. Progress will depend less on the invention of new mechanisms than on embedding those that already exist within more equitable, transparent, and coordinated systems capable of sustaining the actors closest to crisis-affected communities.

In direct response to the first research question, on what kinds of innovative financing mechanisms are currently used in the humanitarian sector, this dissertation makes it clear that the landscape is diverse and expanding. From a broad mix of blended finance models, funds, endowments, facilities, results- and outcomes-based instruments, guarantees, bonds, and insurance products to other kinds of risk-sharing tools, a wide array of instruments is now in the experimental stages. Rather

than a single solution, these instruments work as complementary options in mobilizing capital, strengthening stability, and enabling risk transfer.

The second research question examined the extent to which these mechanisms support transparency, accountability, and ethical practice. The findings indicate that while various instruments embed clearer reporting structures , especially endowments, facilities and outcomes-based models , their contribution towards this end remains uneven. Persistent fragmentation in sector-wide reporting and uneven technical capacity limit the benefits and, in some instances, risk reinforcing power asymmetries. The potential to improve governance is accordingly there, but depends on harmonised processes and more inclusive design.

The third research question explored how financing mechanisms shape collaboration and coordination among humanitarian actors. Evidence shows that innovative mechanisms can encourage joint action by bringing together donors, financial institutions, private investors, and humanitarian organisations under shared structures. Yet participation remains uneven, as smaller or local organisations often face technical or financial barriers to involvement. Collaboration therefore tends to reproduce existing hierarchies unless deliberate efforts are made to support more inclusive engagement.

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APENDIX

Table A1 - Financial Tools

Category	Instrument	Advantages	Limitations / Challenges	Actors with Greatest Access
Non-repayable (Grants)	Traditional grants	Do not require repayment; Accessible to small NGOs	Rigid; Short-term (1–3 years); Rarely covers indirect costs	UN agencies (~60%), INGOs (~39%), Local NGOs (~1%)
	Core funding (General operating support)	Greater flexibility; Supports overall functioning	Reserved for large UN agencies/INGOs	Large UN agencies; INGOs
	Program development support	Funds specific outputs and activities	Short-term; Low sustainability	INGOs; UN agencies
	Outcome-based grants	Stimulates accountability; Focus on results	Requires rigorous monitoring systems	Large NGOs/INGOs
	Matching grants (challenge funds)	Encourage co-investment and local ownership	Favor large, well-networked organizations	Large NGOs; INGOs
	Capital funding support	Useful for large infrastructure/expansion projects	Rigid; Risk of prioritizing visible infrastructure; Excludes small NGOs	Large NGOs; UN agencies
Repayable (Debt/Equity)	Debt (loans, concessional loans)	Mobilize larger capital; Enable long-term infrastructure	Require repayment capacity; Risk of indebtedness	Governments, Large INGOs, and Development finance institutions
	Recoverable grants	Blend philanthropy and investment	Require revenue for repayment; Complex to manage	Large INGOs
	Patient capital	Longer horizons; Lower financial return expectations	Inaccessible to most local NGOs; requires complex structures	Social investors; INGOs
Guarantees & Insurance	Loan guarantees	Reduce risk for investors; Facilitate access to credit	Complex to structure; Limited to large actors	Governments, Development banks, Large INGOs
	Disaster risk insurance (parametric, ARC, CCRIF SPC)	Provide rapid liquidity; Promote resilience	High premiums; Less effective in conflict settings	Governments, Large international agencies
	Microinsurance	Protects small farmers/households	Premiums are often unaffordable without subsidies	Individuals; Local communities
	Forecast-based financing	Releases funds before disasters; Links insurance to early warning	Limited access for local NGOs; Requires technical integration	IFRC; OCHA; Governments
Results-Based	Impact bonds (e.g., ICRC Humanitarian Impact Bond)	Transfer risk; Incentivize efficiency and innovation	High transaction costs; Technical complexity	ICRC; Large INGOs; Governments
	Development Impact Bonds (fragile contexts)	Can mobilize private investment; Improve outcomes	Depend on measurable indicators; Limited access for local NGOs	Public-private consortia; INGOs
	Carbon finance	Link climate and humanitarian action; Generate carbon credits	Complex certification; Volatile carbon prices	UNHCR; Large NGOs; Externally supported projects

Note: Adapted from (König et al., 2020)

Table A2 – Factsheet Innovative Development Finance

InnoFin Cluster / Family	Factsheet	Case Studies
Funds & Facilities	1. Facilities	African Enterprise Challenge Fund (AECF); InsuResilience Solution Fund; Geothermal Development Facility; International Finance Facility for Immunisation
	2. Endowments	Caucasus Nature Fund (CNF); Prespa Ohrid Nature Trust (PONT); Blue Action Fund; Crop Diversity Endowment Fund; The Foundation Tri-National Sangha (FTNS); Endowment Fund for Global Research Institute
	3. Structured Funds	SEE – Green for Growth Fund (GGF); InsuResilience Investment Fund; ECO Business Fund; The European Fund for South East Europe (EFSE); AfricaGrow
	4. Flat (unstructured) Funds	Invera Private Equity Fund (Balkans); Emerging Capital Partners Africa Fund IV; Partech Africa Fund; Africainvest FIVE
Results- and Policy-Based Finance	5. Results-based Finance	Global Energy Transfer Feed-in Tariffs Programme (GET FiT); Pilot Auction Facility for Methane and Climate Change (PAF); Ghana – Output-based Aid; REDD Early Movers (REM)
	6. Outcome-based Finance	Outcome funds with GSG Outcome fund; Mexico – Clínicas del Azúcar SIINC; Westbank & Gaza – Youth unemployment Impact Bond (DIB); Uganda – Yunus Social Success Note
	7. Policy-based Finance	Ghana – Performance-based grants; Tunisia – Policy-based lending in the water sector; Benin – WB Policy-based guarantee; Montenegro – WB Policy-based guarantee
Risk Participation	8. Guarantees	Nigeria – Azura Edo PPP; ACRE Africa; African Energy Guarantee Facility (AEGF); Managed Co-Lending Portfolio Programme (MCPP)
	9. Bonds	Tamil Urban Development Fund; City USD Green Bond Issue; Enel SDG-cooperate bond; Women's Livelihood BondTM (WLBTM); Latin American Green Bond Fund – LAGREEN
	10. Insurance	African Risk Capacity (ARC); R4 Rural Resilience Initiative – Ethiopia; Shock resilient loans (SRL); Health Insurance in Pakistan
	11. Local Currency Finance	African Local Currency Bond (ALCB); GuarantCo; Fund EBRD SME Local Currency Programme; TCX Lift Program – Subsidy
	12. Securitisation	AfDB – Room2Run; Bayfront Infrastructure Management

Note: Adapted from (König et al., 2020)